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87th Congress, 2d Session - - - - - House Report No. 2440

DEFENSE SUPPLY AGENCY

TWENTY-FOURTH REPORT

BY THE

COMMITTEEE ON GOVERNMENT OPERATIONS

SEPTEMBER 20, 1962.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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LETTER OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
Washington, D.C., September 20, 1962.

Hon. JOHN MCCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: By direction of the Committee on Government Operations, I submit herewith the committee's 24th report to the 87th Congress. The committee's report is based on a study made by its Military Operations Subcommittee.

WILLIAM L. DAWSON, *Chairman.*

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SEPTEMBER 20, 1962.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. DAWSON, from the Committee on Government Operations, submitted the following

TWENTY-FOURTH REPORT

BASED ON A STUDY BY THE MILITARY OPERATIONS SUBCOMMITTEE

On September 19, 1962, the Committee on Government Operations had before it for consideration a report entitled, "Defense Supply Agency." Upon motion made and seconded, the report was approved and adopted as the report of the full committee. The chairman was directed to transmit a copy to the Speaker of the House.

I. INTRODUCTION

This is a report by the Military Operations Subcommittee on the Defense Supply Agency of the Department of Defense and related aspects of military supply management. It is based on public hearings held on May 10, 11, and 14, 1962, and additional information gathered thereafter.[1] The subcommittee makes continuing studies of military supply management. Previous reports of the committee in the 86th and 87th Congresses dealt with single manager agencies and materiel utilization.[2]

[1] "Defense Supply Agency," hearings before a subcommittee of the Committee on Government Operations, U.S. House of Representatives, 87th Cong., 2d sess., May 10, 11, and 14, 1962 (hereinafter cited as "hearings").

[2] "Military Supply Management (Single Manager Agencies)," H. Rept. 674, 86th Cong., 1st sess., July 15, 1959 (hereinafter cited as "House Report No. 674").
"Military Supply Management (Progress in Single Management)," H. Rept. No. 2042, 86th Cong., 2d sess., June 30, 1960 (hereinafter cited as "House Report No. 2042").
"Defense Materiel Utilization Program," H. Rept. 1214, 87th Cong., 1st sess., Sept. 19, 1961 (hereinafter cited as "House Report No. 1214").

Single Managers Within Departments

The single manager agencies, as shown in earlier committee reports, were organizational devices for integrating selected supply and service activities common to the several military services. The Secretary of a military department was charged, as "single manager," with responsibility for procuring the designated commodities or services and making them available to all military users at the "wholesale" level. Within the Secretary's department, a single manager "operating agency" carried on the common supply or service functions. In essence, the single manager concept was an extension of single procurement, by then a well-established practice for certain commodities, to the distribution field.

Subcommittee studies and recommendations have been aimed at increasing the effectiveness of single agency management of common supplies and services. We may note here that the single manager concept was developed in response to recurring criticisms by this and other congressional committees and by the Hoover Commission regarding unnecessary duplication and waste in military supply activities. This management arrangement was a compromise in the sense that it endeavored to reconcile centralizing moves toward greater efficiency and economy with strong tendencies toward service autonomy and separation.

Since 1955–56, when the single manager concept was first put forth by the Department of Defense, eight single manager agencies for commodities and three single manager agencies for services (in the transportation field) were created by four successive Secretaries of Defense. The first four commodity single manager agencies for subsistence, clothing-textile, medical, and petroleum items, were relatively easy to establish. The next four, covering general, industrial, construction, and automotive supplies, were confronted with increasingly difficult problems of defining manageable groupings of items for single management purposes.

Meanwhile, studies of new commodity groupings for possible single management, such as electrical-electronics supplies, suggested that the single manager concept, while solving many supply problems, was creating others. The electronic commodity area alone encompassed a $1 billion inventory and 700,000 supply items on the wholesale and retail levels. By contrast, the compact medical supply grouping had 10,000 items. With more and more single managers having supply control over larger or smaller segments of the vast pool of military supplies, each operating with its own stock fund and the doctrines and procedures of its own department, compounded by the cross-agency relationships entailed in single management, it would seem that a single manager was needed to control the single managers. Carrying the thought a step further, would it not be simpler to regroup the whole complex of single managers in a separate supply agency?

Organizational Alternatives

How to cope with such organizational problems was one of the issues confronting Secretary of Defense Robert S. McNamara when he assumed office. He instituted numerous studies of critical areas in the organization and management of the Department of Defense. One of these was Project 100, which concerned itself with ways and means to

improve management of common supplies and services. Under the leadership of the General Counsel of the Department of Defense, Cyrus R. Vance (now Secretary of the Army), within whose office a study group for organization and management had been set up at Secretary McNamara's behest, the required study was made and completed on July 11, 1961. Three alternative courses of action were outlined.

Plan 1 pointed to the continuation of separate single manager assignments to the Secretaries of the military departments. They would manage, through their operating single manager agencies, designated commodities and services, for the benefit of all military users.

Plan 2 proposed bringing together common supply and service activities under the roof of a single military department. Since the Secretary of the Army already held the majority of the single manager assignments, his department would be a likely candidate for a consolidation of this kind.

Plan 3, the one eventually adopted, called for the establishment of a single supply agency outside of the military departments. Secretary McNamara's memorandum setting up Project 100 suggested that this agency report directly to him. The plan developed by the study committee proposed that the agency report through a Defense Supply Council. Another alternative was that the Agency could report to the Secretary of Defense through the Joint Chiefs of Staff in the same manner as a unified command. Under the organization finally adopted, the Agency director reports directly to the Secretary of Defense.

Defense Supply Agency Established

While the study resulting from Project 100 made no recommendations, it was submitted to the military departments for comments and recommendations on their part. After these were reviewed, Secretary McNamara decided to set up a separate supply agency.[3]

The decision was announced by Secretary McNamara at a press conference on August 31, 1961. A formal memorandum from Deputy Secretary Gilpatric went to the Secretaries of the military departments and other interested officials on September 12, 1961, outlining the structure and functions of the new agency.[4] In another memorandum, Mr. Gilpatric formally designated Lt. Gen. Andrew T. McNamara, U.S. Army, as Director of the Defense Supply Agency.[5]

General McNamara, who was serving as deputy commanding general of the U.S. 8th Army in Korea, flew back to Washington on October 1, 1961, to begin preparatory work in setting up the new Agency. With unusual dispatch, the formal charter for the Defense Supply Agency missions and functions was drafted, agreed to by the military services, and signed by Secretary McNamara on November 6, 1961.[6] Acting in accord with a schedule, the Agency assumed

[3] The response of the military departments was given in a meeting of the Materiel Secretaries with the study committee. According to the Defense Department, no transcript or minutes were made. In general these replies were as follows: The Navy favored the separate supply agency approach (plan 3). The Army favored the assignment to 1 service, and recommended itself (plan 2). The Air Force apparently favored no significant change (plan 1). The result may be said to be a 2-to-1 vote for consolidation, with the option of the organizational status left up to the Secretary of Defense.

[4] Hearings, p. 202.

[5] Hearings, p. 204.

[6] DOD Directive No. 5105.22, hearings, pp. 206–228.

command of a number of field activities on January 1, 1962. A half year later it was operating in some areas and organizing its operations in others.

In our report on defense materiel utilization, submitted in September 1961, the committee took note of Secretary McNamara's decision to establish a new Defense Supply Agency, endorsed his objectives, encouraged the move, and promised to review the new Agency's operations after these were well underway.

Hearings and Witnesses

As noted above, the subcommittee held hearings on May 10, 11, and 14, 1962. Testimony was taken from representatives of the Department of Defense, the General Services Administration, and the General Accounting Office.

The following is a list of the witnesses who appeared before the Military Operations Subcommittee at these hearings:

DEPARTMENT OF DEFENSE

Hon. Roswell L. Gilpatric, Deputy Secretary of Defense.

DEFENSE SUPPLY AGENCY HEADQUARTERS

Lt. Gen. Andrew T. McNamara, U.S. Army, Director, Defense Supply Agency.
Rear Adm. Joseph M. Lyle, U.S. Navy, Deputy Director, Defense Supply Agency.
Maj. Gen. Roy T. Evans, U.S. Army, Executive Director, Logistics Plans and Systems.
Rear Adm. C. A. Blick, U.S. Navy, Executive Director, Procurement and Production.
Maj. Gen. Donald L. Hardy, U.S. Air Force, Executive Director, Supply Operations.
Robert C. Moot, Comptroller.
Col. Joseph B. DeLuca, Plans Directorate.

DEFENSE SUPPLY AGENCY FIELD ACTIVITIES

Maj. Gen. Victor J. MacLaughlin, U.S. Army, Commander, Defense General Supply Center.
Brig. Gen. William W. Veal, U.S. Air Force, Commander, Defense Electronics Supply Center.
Capt. E. T. Dobbyn, U.S. Navy, Deputy Director, Defense Logistics Services Center.
Col. D. L. Bierman, U.S. Army, Chief, Requirements and Distribution Division, Defense Subsistence Supply Center.
Col. G. L. Campbell, U.S. Army, Comptroller, Defense Clothing and Textile Supply Center.
R. J. Rivard, special assistant to the Commander, Defense Clothing and Textile Supply Center.

GENERAL SERVICES ADMINISTRATION

Hon. Bernard L. Boutin, Administrator of General Services.
C. D. Bean, Commissioner, Federal Supply Service.
Lloyd Dunkle, Director, National Buying Division, Federal Service Service.
Robert Oremland, Director, Technical Assistance Division, Federal Supply Service.

GENERAL ACCOUNTING OFFICE

Edward T. Johnson, Associate Director, Defense Accounting and Audit Division.

II. STATUTORY SETTING

The Defense Supply Agency is an organizational entity established by the Secretary of Defense acting under authority delegated by the Congress. The precise nature and extent of this authority has been the subject of debate. The evolution of law and policy has been toward increasing the Secretary's authority over the military departments and services, enabling him to give strong civilian leadership and positive direction to the Defense Establishment. At times, the Secretary's exercise of authority has been resisted by the military departments and services, and challenged by committees of the Congress sympathetic to traditional service concerns and fearful lest the separate services be "merged."

Congressional attitudes have varied according to the committees involved, the importance of the particular issues, and the temper of the times. Notwithstanding these differences, we believe that there is pervasive sentiment in Congress for improved management of the multibillion dollar resources of the Department of Defense. The Defense Supply Agency is one organizational means which the Secretary of Defense is utilizing to bring about the desired improvements. The agency is not new in concept, although it comes as a decisive step after decades of controversy about proper organization of military supply activities.

Unification studies were spurred by the World War II experience. At the very outset of the war, in 1942, the Army Service Forces were established as a central supply and service organization to support the Army ground and air forces.[1] At the close of the war, this central command organization for supply and services was disestablished, and problems of military supply management were overshadowed by controversies concerning the basic organizations and combat missions of the Armed Forces. Those who favored a single Department of the Armed Forces or a lesser degree of unification usually proposed a central supply agency or directorate to handle a broad range of supplies and administrative and other services, separate from the military departments. The Defense Supply Agency is a contemporary adaptation of that concept.

In this section we review briefly the statutory evolution of defense organization, to better understand the status of the Defense Supply Agency and the questions which have been raised about the authority for its creation. We will not attempt to trace all the important statutory changes in military command structures and the role of the Joint Chiefs. The emphasis here is mainly on the Secretary of Defense's authority relative to supply management.

[1] See J. D. Millet, "The Organization and Role of the Army Service Forces," volume in series "United States Army in World War II," Office of the Chief of Military History, Department of the Army, Washington, D.C., 1954.

National Security Act (1947) [2]

The National Security Act of 1947 created a federated agency, the National Military Establishment, to coordinate the Army, the Navy, and the newly created Air Force as three separate executive departments, each headed by a civilian Secretary. This establishment was headed by a Secretary of Defense, who was provided with three special civilian assistants (not Assistant Secretaries), and with the following statutory staff agencies drawn from service components: the Munitions Board, the Research and Development Board, the War Council (the Secretaries and the Chiefs of Staff), and the Joint Chiefs of Staff, aided by a joint staff.

The three military departments were given separate administrative command structures under their own civilian Secretaries, who had the right of appeal directly to the President and to the Bureau of the Budget. The military departmental Secretaries also were assigned all powers and duties not specifically conferred on the Secretary of Defense.

The duties of the Secretary of Defense, as outlined by the act, included the establishment of general policies and programs for the National Military Establishment; elimination of unnecessary duplication or overlap in procurement, supply, transportation, storage, health, and research; and the supervision and coordination of budget matters. A congressional declaration of intent made it clear that while the Secretary should provide "authoritative coordination and unified direction under civilian control," the departments were not to be merged.

Experience of the first years under the National Security Act showed serious weaknesses in achieving even this limited unification. Secretary of Defense James Forrestal, an original opponent of a single Department of Defense to include the three military departments, came to the conclusion, on the basis of his experience, that the Secretary needed stronger authority to carry out his responsibilities.

Criticisms of defense organization and procedure under the National Security Act were summarized generally in the 1949 Hoover Commission report, based on its Eberstadt task force recommendations. Critical attention was given the lack of authority of the Secretary to exact compliance; the crush of work burdening the Secretary; the department heads' ability to appeal the Secretary's budget decisions over his head to the President; the too frequent employment of ad hoc committees; inadequacy of staff; lack of close working relations between the coordinating bodies created by the act, and between the civilian and military components; poor liaison with Congress; and extravagance and inefficiency.

National Security Act Amendments (1949) [3]

The National Security Act Amendments of 1949 attempted to meet these criticisms. The National Military Establishment became an executive department known as the Department of Defense. The Departments of the Army, Navy, and Air Force were converted from executive departments into military departments. The Secretary of Defense was made the President's "principal assistant" on defense

[2] Public Law 80-253, July 26, 1947 (61 Stat. 495).
[3] Public Law 81-216, Aug. 10, 1949 (63 Stat. 578).

matters and was charged with "direction, authority, and control" over the military departments. The service Secretaries were deprived of the right of appeal to the President or Budget Director on budget decisions of the Secretary of Defense.

To assist the Secretary of Defense, a Deputy Secretary of Defense was authorized, along with three Assistant Secretaries, one of whom was designated by Congress as the Comptroller. Title IV added comptrollers in the Department of Defense and in each military department, and emphasized the "performance budget" to strengthen central budgetary control.

While the limiting word "general"was removed from the Defense Secretary's "direction, authority, and control," and the concept of powers "reserved" to the services was eliminated, there were also added specific limitations on the Secretary's authority. He was forbidden to transfer or consolidate any combatant function and required to report to Congress any reassignment of a noncombatant function. The military departments were not to be merged but were to be "separately administered by their respective Secretaries."

In the 1947 act, the Secretary of Defense had been mandated to, among other things, "take appropriate steps to eliminate unnecessary duplication or overlapping in the fields of procurement, supply, transportation, storage, health, and research." The Senate bill introducing the 1949 amendments, in seeking to strengthen and clarify the Secretary's authority, proposed that the above-quoted provision be amplified as follows:

> Taking of appropriate steps, including such coordination, transfers, and consolidations as may be necessary, to eliminate unnecessary duplication or overlapping in the fields of procurement, supply, transportation, storage, personnel, health, research, and in such other fields, as he may deem proper.

During the discussion of this proposed revision in the House Armed Services Committee, Pentagon counsel took the position that it was unnecessary in the light of the broadened authority which the amendments would confer upon the Secretary of Defense.[4] Accordingly, the above-quoted provisions, both of the Senate bill and of the original act, were struck out by the House committee, and the deletions were accepted in conference.

As amended in 1949, the law still presumed, though it did not specifically state, that the Secretary would take steps to eliminate unnecessary overlapping and duplication. Thus he was required, in submitting written reports to the President and the Congress, to itemize statements of savings derived from "eliminations of unnecessary duplications and overlappings that have been accomplished pursuant to the provisions of this Act."

The 1949 amendments also stated in somewhat firmer language the duties of the Munitions Board, which had been created by the 1947 legislation. Originally the Munitions Board was enjoined, among other things, to make recommendations to regroup, combine, or dissolve existing interservice agencies operating in the fields of procurement, production, and distribution in such manner as to promote

[4] Committee on Armed Services, House of Representatives, hearings on S. 1843 (No. 95), July 6, 1949, p. 2812 ff.

efficiency and economy. The 1949 amendments authorized the Munitions Board, under the Secretary's direction, to: [5]

> prescribe * * * regrouping, combining, or dissolving of existing interservice agencies operating in the fields of procurement, production, and distribution in such manner as to promote efficiency and economy.

The Munitions Board, comprising representatives of the three military departments and a Chairman with limited discretion, never became an effective agency for military supply integration. In 1951, however, after much hesitation and largely at the insistence of this committee, the Munitions Board undertook to study feasibility of defensewide procurement, storage, and distribution of designated common supplies by one military department. A test operation on the west coast was set up for medical supplies. This test, which had rather effective results, was the precursor of the single-manager concept, although no action was taken to apply the concept in a significant way until some 5 years later.

O'Mahoney Amendment (1952)

In the meantime, investigations of the Bonner subcommittee of this committee led to the drafting of a bill which was introduced in June 1952, proposing to give the Secretary of Defense broader and more positive authority for supply integration. The bill would have created an Under Secretary of Defense for Supply and a defensewide supply corps to assist him in the administration of supply functions.[6] The bill was referred to the Committee on Expenditures in the Executive Departments, predecessor of this committee, but upon motion of Mr. Vinson, was re-referred to the Armed Services Committee. No action was taken on this bill.

Seeking to give effect to certain of the Bonner subcommittee recommendations, Representative Meader offered floor amendments to the Defense appropriations bill for fiscal year 1953 to restrain the Air Force, as a separate military department, from establishing its own supply system for common use items. These amendments were approved by the House but not by the Senate, which took a more general approach.

While Senator Douglas had wanted to offer a companion to the Bonner bill as an adjunct to the appropriations bill, Senator O'Mahoney, the floor manager of the bill, considered that broad substantive legislation of this sort would be subject to a point of order. He proposed alternative language which was adopted and which became known as the O'Mahoney amendment. The amendment read as follows: [7]

> (a) Notwithstanding any other provision of law, and for the purpose of achieving an efficient, economical, and practical operation of an integrated supply system designed to meet the needs of the military departments without duplicating or overlapping of either operations or functions, no

[5] Sec. 213(c)(7) of the National Security Act of 1947 as amended by sec. 8 of Public Law 81-216 (61 Stat. 583).
[6] H.R. 8130, 82d Cong., 2d sess.
[7] Public Law 82-488, Department of Defense Appropriation Act for 1953, July 10, 1952, sec. 638 (66 Stat. 538).

> officer or agency in or under the Department of Defense, after the effective date of this section, shall obligate any funds for procurement, production, warehousing, distribution of supplies or equipment or related supply management functions, except in accordance with regulations issued by the Secretary of Defense.

This amendment was accepted as part of the fiscal year 1953 Appropriations Act and, with slight changes in wording, is now codified into permanent law.[8]

While the declared purpose of the O'Mahoney amendment was "an integrated supply system," it did not confer upon the Secretary of Defense new substantive authority beyond that contained in the National Security Act, as amended. The theory of the O'Mahoney amendment was that the Secretary of Defense, by being required to issue regulations before any military department, agency, or office could obligate funds for supply purposes, would be compelled to review all existing supply functions and thereby would be better able to identify overlapping and duplication. The main consequence of the O'Mahoney amendment was the issuance of directives by the Secretary of Defense restating or reaffirming existing regulations under which the military departments, agencies, and offices obligated funds for the varied supply activities within their cognizance.

Reorganization Plan No. 6 (1953)

Despite the 1949 amendments enlarging the office and powers of the Secretary of Defense, the focal points at issue in defense organization continued. Interservice rivalry, increasing emphasis on guided missiles and other costly weapons systems, budgetary allocations, and basic roles and missions in relation to national strategy, were problems which gave rise to demands for further reorganization.

President Eisenhower, upon assuming office in 1953, appointed the Rockefeller Committee to study the problem and make recommendations in regard to defense reorganization. These recommendations were incorporated in Reorganization Plan No. 6 of that year and adopted by the Congress.[9]

This reorganization plan sought, among other things, to clarify lines of authority within the Department of Defense and improve its staff organization. To the Office of the Secretary of Defense were transferred the functions of several boards, including the Munitions Board, the Research and Development Board, and the Defense Supply Management Agency, which had been created by a separate congressional enactment. Six additional Assistant Secretaries of Defense were created to aid in these and other duties the Secretary should prescribe. A General Counsel was added as chief legal officer of the Department.

Reorganization Plan No. 6 of 1953 made no significant changes in defense organization regarding supply management. One of the new Assistant Secretaries of Defense, having absorbed the functions of the Munitions Board, was to concern himself with supply and logistics. However, the guiding concept for departmental organization was that the three military departments would serve as the principal agents of

[8] Title 10, United States Code, sec. 2202 (1958).
[9] H. Doc. 136, 83d Cong., 1st sess., 67 Stat. 638.

the Secretary of Defense for the management and direction of the entire defense enterprise.

Bills on Supply Organization (1955–57)

The second Hoover Commission, which issued its reports in 1955, directed attention to management and administrative problems of the Defense Establishment. It criticized weaknesses in top defense management on several grounds and scored unnecessary waste, and duplication of stocks, facilities, and personnel in military supply systems. One of the Commission's recommendations reflected the belief that the management of common supply and service activities within the Defense Establishment should be organizationally distinct, with a single agency, separate from the military departments, administering these functions. The recommendation said: [10]

> Congress should enact legislation establishing a separate civilian-managed agency, reporting to the Secretary of Defense, to administer common supply and service activities.

Legislation to this effect was introduced in the 83d Congress and referred to the Armed Services Committees, but no action was taken. The Department of Defense, for its part, proposed the single-manager concept as an alternative. Existing authority of the Secretary of Defense was considered sufficient for the designation of departmental secretaries as single managers and for the creation, within the departments, of single-manager operating agencies. The first single-manager actions were taken in 1955–56.[11]

The next year, during consideration of the defense appropriation bill for fiscal year 1958, another legislative rider was proposed, known as the second O'Mahoney amendment.[12] It directed the Secretary of Defense to take such actions as necessary to achieve economy, efficiency, and effectiveness in noncombatant services, activities, and operations through the elimination of overlapping, duplication, and waste within and among the agencies of the Department of Defense. To accomplish these objectives, the Secretary was to be authorized from time to time to transfer, combine, and coordinate noncombatant services, activities, and operations within the Department of Defense.

The amendment passed in the Senate but failed of adoption in the House. The conferees reported: [13]

> This language was stricken with the understanding that the appropriate legislative committees have the matter under consideration and that legislation will be forthcoming.

The Department of Defense Reorganization Act of 1958 was the next major reorganization enactment.

Defense Reorganization Act (1958) [14]

Demands for defense reorganization which culminated in the 1958 enactment again were centered on the role and authority of the

[10] Commission on Organization of the Executive Branch of the Government, "Business Organization of the Department of Defense," June 1955, pp. 45, 89; dissents, pp. 95–102, 105–121.

[11] See "Commission on Organization of the Executive Branch of the Government (food and clothing report)" hearings before a subcommittee of the Committee on Government Operations, House of Representatives, May 5–13, 1955; and H. Rept. 2013, 84th Cong., 1st sess.

[12] Congressional Record, July 1 and 2, 1957, pp. 9603–9646, 9733–9764.

[13] Conference Report No. 841, 85th Cong., 1st sess., July 23, 1957, p. 6.

[14] Public Law 85-599, Aug. 6, 1958 (72 Stat. 514).

Secretary of Defense. President Eisenhower's April 3, 1958, message proposing the reorganization cited the need to strengthen the Secretary's authority in such matters as direction of strategic planning and military operations; distribution of functions within his Department; research and development of new weapons; management of funds; and appointment, assignment, and removal of officers in the top two military ranks.

In view of recurrent concern that such reorganization moves would cause the three military departments to be merged into a single organization, President Eisenhower said he had neither the intent nor the desire to merge or abolish the traditional services. However, he proposed to eliminate from the policy declaration and text of the National Security Act the language that the military departments be separately administered.

In 1953 the Department of Defense had taken the position that the word "separately" in reference to administration of the military departments did not limit the powers of the Secretary of Defense. Secretary Neil McElroy, in office during the 1958 reorganization, indicated that elimination of the restrictive phrases would have a psychological value in emphasizing the Secretary's authority and in discouraging departmental resistance to that authority.[15]

In enacting the legislation, the Congress removed the longstanding proviso for separate administration of the military departments, although they still were to be separately "organized." Left intact also was the congressional declaration of policy that the services were not to be merged.

The 1958 reorganization removed the military departments from command channels with regard to unified commands, took away the statutory command and planning functions of the departmental secretaries and service chiefs for the commands, and eliminated one each of the departmental assistant secretaries. The departmental secretaries were still to be responsible for administering their respective departments, but their functions were confined to recruiting, organizing, supplying, equipping, training, serving, mobilizing and demobilizing, and command and planning functions for personnel not a part of the unified commands.

The legislation, as recommended by President Eisenhower and as reported by the Armed Services Committees, did not explicitly touch the supply and logistics systems and organizations of the military departments. In the policy declaration the Secretary of Defense still was enjoined "to eliminate unnecessary duplication in the Department of Defense" although now the concern was primarily to avoid duplication in research and development, spurred by a profusion of missile programs.

The single manager plan had been initiated before the 1958 legislation was enacted. However, President Eisenhower and other sponsors of the 1958 reorganization believed that elimination of the "separately administered" phrase would remove impediments to the extension of this plan. The President's message stressed also "the need for removing doubts concerning the Secretary's authority to transfer, reassign, abolish, or consolidate functions of the Department."

[15] "Department of Defense Reorganization Act of 1958," hearings before the Committee on Armed Services, U.S. Senate, on H.R. 12541, 85th Cong., 2d sess., June 17–July 6, 1958, pp. 15 ff.

The 1958 act affirmed or restated the Secretary's authority to transfer, reassign, abolish, or consolidate functions, with several important restrictions which are relevant to an understanding of the status of the Defense Supply Agency. Prior to 1958, the National Security Act enjoined the Secretary from transferring, reassigning, abolishing, or consolidating the statutory "combatant functions" of the military services. His authority in transferring or abolishing other functions was impliedly given in that, if any such actions were taken, he had to report the pertinent details to the Armed Services Committees.

In the 1958 legislation, the Secretary was mandated to "take appropriate steps * * * to provide in the Department of Defense for more effective, efficient, and economical administration and operation and to eliminate duplication." [16] To accomplish these objectives, the Secretary was explicitly empowered to transfer, reassign, abolish, and consolidate functions.

This reorganization authority requires congressional review and approval in certain cases. If a function in the Department of Defense has been established by law, it cannot be "substantially transferred, reassigned, abolished, or consolidated" until the plan lies before the Congress for a certain period.

The waiting period, in the first instance, is 30 days. If during that time the Armed Services Committee of either House does not report out a resolution calling for rejection of the plan, it takes effect at the end of the 30-day period. If a resolution is reported out by either Armed Services Committee, there is another 40-day waiting period. If neither House adopts a disapproving resolution, the plan takes effect.

The two grounds for a disapproving resolution, both of which apparently must be present, are: (1) an attempt to change the basic statutory role and mission ("major combatant function") of any military service; and (2) proposals tending to impair the defense of the United States.

Certain reorganization actions specifically are exempted from the requirement of reporting to the Armed Services Committees. Thus, the Secretary could, on his own authority, assign or reassign development and operational use of new weapons or weapon systems among the services; in the event of war the Secretary has rather full powers of reorganization; and in supply and service operations, the Secretary can establish single agencies.

The McCormack Amendment

The last-named authority was given by the McCormack amendment, which reads as follows: [17]

> Whenever the Secretary of Defense determines it will be advantageous to the Government in terms of effectiveness, economy, or efficiency, he shall provide for the carrying out of any supply or service activity common to more than one military department by a single agency or such other organizational entities as he deems appropriate. For the purposes of this paragraph, any supply or service activity common to

[16] National Security Act of 1947 as amended, sec. 202(c)(1) (5 U.S.C. 171a(c)(1)).
[17] National Security Act of 1947 as amended, sec. 202(c)(6); 5 U.S.C. 171a(c)(6).

> more than one military department shall not be considered a "major combatant function" within the meaning of paragraph (1) hereof.

This amendment was introduced during floor consideration of the 1958 reorganization bill; it was not reported by the committee. The Honorable John W. McCormack, then majority leader, had urged Chairman Vinson to include language in the reorganization bill that would remove any doubt as to the Secretary of Defense's authority to direct that common supply or service activities be carried out by a "single agency or combination of agencies." Mr. Vinson agreed to the McCormack amendment when it was introduced on the floor.

The McCormack amendment did not lay down a specific statutory pattern for supply systems integration but left the Secretary of Defense with broad discretion in this field. The debate in the House suggests that it was accepted by Mr. Vinson and others as an endorsement of the single manager plan and as a reaffirmation of congressional support for economy and efficiency in military activities.[18]

Now, when the McCormack amendment is cited as authority for incorporation of the single manager agencies in a new Defense Supply Agency separate from the military departments, Mr. Vinson and several other members of the Armed Services Committee have questioned its applicability. They seemed to be disturbed particularly by the fact that the Secretary of Defense has created several other defense-level agencies which are service-type rather than commodity-type organizations, such as the Defense Communications Agency and the Defense Intelligence Agency.

In testimony before our subcommittee, Defense Department witnesses grounded the establishment of the Defense Supply Agency in the Secretary's broad authority to transfer and consolidate functions, regarding the McCormack amendment as affirming or supporting rather than as exclusive statutory authority.[19] They contended, in other words, that they were empowered to establish the Defense Supply Agency even without the McCormack amendment, but that its presence removed any doubts on that score.

In testimony before a subcommittee of the Armed Services Committee, Department of Defense witnesses tended to rely more heavily on the McCormack amendment as authority for the creation of the Defense Supply Agency. The differing emphasis suggests that the Department may not have developed fully or finally its position in the matter.

The Armed Services Subcommittee, with Mr. Vinson's concurrence, recently reported its view that the authority contained in the McCormack amendment should be modified.[20] Its concern is that under cover of this authority, the Secretary of Defense may make reorganizations which would significantly affect basic roles and missions without formally reporting to the Armed Services Committees. The McCormack amendment, as we noted above, does not require a report. In the case of the Defense Supply Agency, Secretary McNamara pointed out that he had reported to the Armed Services Committee, even though not required to do so.[21]

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[18] Congressional Record, June 11, 1958, pp. 9789–9820; June 12, 1958, pp. 9913–9944 (daily ed).
[19] Hearings, pp. 59, 60, and 70.
[20] Report of Special Subcommittee on Defense Agencies, Committee on Armed Services, No. 69, H.R., 87th Cong., 2d sess., Aug. 13, 1962, p. 6634.
[21] Hearings before Special Subcommittee on Defense Agencies (No. 71), Committee on Armed Services, H.R., 87th Cong., 2d sess., June 4 to July 31, 1962, p. 6698.

We understand the concern shown by the several members of the Armed Services Committee, particularly since semantic difficulties and confusion and controversy have beset the National Security Act from the very beginning. We believe that the Secretary of Defense has by law authority to establish the Defense Supply Agency.[22]

We are convinced also that the Congress favors strong leadership by the Secretary of Defense and positive action for improved supply management. Significantly enough, the Armed Services Committee report did not advocate administrative or legislative action to abolish the Defense Supply Agency.

Unlike a Presidential reorganization plan, a defense reorganization plan is not required by law to be submitted to the Congress as a whole. It is not automatically an executive message printed as a public document. If the Armed Services Committee approves the defense reorganization plan, the Secretary is enabled to, in effect, repeal or modify laws through his reorganization authority without any notice in the Federal Register or any other formal publication. Whereas Presidential reorganization plans are recorded in the Statutes at Large, defense reorganization plans are transactions between the Armed Services Committees and the Secretary of Defense.

Concerned that there might be constitutional issues in the Army reorganization plan promulgated in January 1962, the executive branch made arrangements for Secretary McNamara to first submit the plan to the President, who in turn submitted it to the Speaker of the House and the President of the Senate. Although the law does not prescribe this procedure, it was believed to be better constitutional form.

Similarly, on August 29, 1962, the Army Adjutant General filed, for publication in the Federal Register, the order of the Secretary of Defense reorganizing the Department of the Army, which had been issued on January 10, 1962.[23] This procedure is not required under the Department of Defense Reorganization Act.

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[22] See hearings, p. 27.
[23] 27 F.R. 8681.

III. STRUCTURE AND FUNCTIONS

Under the terms of its charter, the Defense Supply Agency comprises the Director (Lieutenant General McNamara), the Deputy Director (Rear Admiral Lyle), the headquarters, and subordinate units, facilities, and activities. The subordinate units may be assigned to DSA by the Secretary of Defense, or they may be established by the DSA Director to accomplish his mission.[1]

The Director reports directly to the Secretary of Defense. A Defense Supply Council, consisting of the Deputy Secretary of Defense, as chairman, the Secretaries of the Army, Navy, and Air Force, the Chairman of the Joint Chiefs of Staff, and the Assistant Secretary of Defense (Installations and Logistics), has been formed to advise and assist the Secretary of Defense in the direction and control of the Defense Supply Agency.

The Director meets with the Secretary of Defense and the Deputy Secretary at a weekly meeting for a review of problems. Deputy Secretary Gilpatric told the subcommittee that both he and Mr. McNamara put a high priority on seeing that the Agency gets all the attention and authority it needs from the top level.[2]

Questions of DSA authority, assignments, and relationships also may be taken up at meetings of the materiel secretaries (the Assistant Secretary of Defense and departmental Assistant Secretaries for Installations and Logistics).

Agency Relationships

The Defense Supply Agency is separately organized within the Department of Defense under the direction, authority, and control of the Secretary of Defense; but it is outside of the military departments. Likewise it is said to be outside the Office of the Secretary of Defense.[3] This is the official answer to criticism that the Office of the Secretary of Defense is intruding into "operations." The organizational status of the new agency is described as similar to that of the National Security Agency and the Defense Atomic Support Agency, units long-established in the Department of Defense.

The Defense Supply Agency is, however, subject to policy direction and supervision of the organizational elements of the Office of the Secretary of Defense. It provides information to, and receives guidance from, the Office of the Assistant Secretary of Defense (Installations and Logistics) "in much the same manner as the logistics element of a military department."[4] DSA representatives are briefed on military plans and associated logistic requirements, and DSA and Joint Staff arrangements are made to coordinate planning and programs of mutual interest.

There is an extensive coordination at all echelons between DSA personnel and those of the military departments. The DSA charter

[1] Department of Defense Directive No. 5105.22, par. II, hearings, p. 207.
[2] Hearings, p. 58.
[3] Hearings, p. 64.
[4] Hearings, p. 186.

specifically provides for such free access and interchange, but the agency policy is to avoid unilateral or arbitrary action that may upset effective supply support of a military department.[5] The DSA role, as emphasized by General McNamara, is to support the military departments, to give them what they need when and where they want it. The success of this mission requires continuous communication.

Another aspect of the new agency is that the DSA has become the principal Department of Defense office to work out improved relationships with the General Services Administration. Since the common items have been gathered under DSA management, there can be a more systematic and sensible division of functions between the Department of Defense agency for common military supplies and its civilian agency counterpart.

Scope of Operations

The DSA is responsible for providing the most effective and economical support of common supplies and services to all Department of Defense components. "Common supplies," under the charter, are defined as items of supply determined under approved criteria to be susceptible of single agency management for all the military services; "common services" are those services directly associated with the supply management function.

At this time DSA is charged with the supply management of food, clothing, medical, petroleum, general, industrial, construction, automotive, and electronics supplies. It is charged with transportation management, because freight routing and rates for common carriage are a major part of the supply problem in the continental United States. Air transportation and ocean transportation, which are single manager assignments to the Air Force and Navy respectively, have not been included within the framework of the Defense Supply Agency. The Military Air Transport Service and the Military Sea Transportation Service remain as single manager operating agencies outside the DSA.

The assignment of commodities and services is open end; that is, the Secretary of Defense may add to the list of assignments, and the DSA Director may assign them in turn to appropriate supply centers or units under its jurisdiction.

The DSA is responsible for wholesale distribution of assigned supplies, for their inspection, and for the administrative mechanisms and operations necessary to insure their efficient flow through supply channels. It also administers several Defense-wide programs: coordinated procurement (single department purchase assignment), cataloging, standardization, materiel utilization, and surplus property disposal. These specific assignments also are open end.[6]

The magnitude and importance of DSA operations are shown by the following data supplied by the Department of Defense (figures are approximate):

(1) An inventory of 1,200,000 items, when DSA becomes fully operational;

(2) A stock fund inventory in DSA valued at $2.6 billion by the end of fiscal year 1963;

[5] Hearings, p. 187.
[6] Hearings, pp. 208–209, 224.

(3) Procurement by the Agency, during the same fiscal year, of $2.9 billion worth of goods and services; [7]

(4) Distribution of $3.2 billion worth of goods and services by DSA during the same year (this will include commodities in storage and new procurement);

(5) Excess property representing $6 to $8 billion in acquisition costs managed by DSA for redistribution and surplus disposal;

(6) The Defense traffic management program, involving an annual expenditure of $700 million, administered by DSA;

(7) DSA's Defensewide programs in cataloging, standardization, and materiel utilization cover 4 million items.

(8) DSA staffing for headquarters and field activities includes 24,000 civilian and military persons.

Wholesaler Function

It is important to emphasize that the Defense Supply Agency, will operate as a wholesale supply manager for the military departments and other components of the Department of Defense. It buys and stocks wholesale quantities of items needed for the operation of the retail supply systems of the military departments and services. It deals mainly with industry. Secretary Gilpatric said that the agency is "producer oriented." [8]

As a central procurement agency, DSA should be able to buy at the best times of the year for the best terms and prices, anticipating future requirements. As a central distributing agency, it will store in certain consolidated locations, and then "sell" and ship in smaller quantities to retail supply points as their stocks become low. It may also consolidate purchases and arrange for direct delivery from supplier to a number of retail supply points at once.

In the case of transportation, the agency functions mainly in setting standards and negotiating rates and routing traffic, rather than in actual procurement.

In the "technical" commodity groups such as electronics, industrial, automotive, and construction supplies, DSA has not inherited the supply management of all items in a commodity group. The military services not only retain retail management functions for DSA-supplied items but they are also their own wholesalers for items which are not deemed susceptible of DSA central management under current criteria. If an item is likely to be redesigned rapidly, or is directly related to a weapon system, or is a major end item essential to a mission, it is considered reasonable that the user manage his own procurement, stocks, inspection, and distribution.

Joint Staffing

Important in the new DSA organization is the quality and nature of its personnel. It will provide for a greater degree of joint staffing with respect to the military officers of the four services. In the former single manager operations, each commodity and service agency

[7] This figure includes the procurement of bulk petroleum products, which DSA will buy but not stock in inventory for the armed services. The services individually will own and manage bulk petroleum stocks, as was the case with the single manager operation. DSA will assume central management of packaged petroleum products, however, on Oct. 1, 1962.

[8] Hearings, p. 61.

was staffed largely by the personnel of the parent military department.

At the time of the transfer of the single manager agencies to DSA, Army officers occupied 64 percent of the 568 billets in the integrated agencies. The Navy had 22 percent, the Air Force 11 percent, and the Marine Corps 3 percent.

The new joint staffing plan will call for about 41 percent Army officers, 27 percent Navy, 28 percent Air Force and 4 percent Marine Corps. This plan will carry out the committee's recommendation in House Report 2042 that the Air Force gain experience in the integrated management of common supplies. While it will reduce somewhat the number of Army officers in DSA, it will make their experience available to the field commands, where an understanding of integrated commodity supply operations is essential.

General McNamara believes that the more balanced staffing program will, in the long run, enhance DSA capabilities to support all military units of whatever type and mission. The committee believes that it will increase the understanding and support of the military departments as the military officers are rotated through assignments in the DSA. More important, the DSA assignments will provide more valuable experience for the personnel assigned to the agency, particularly where the agency is able to accomplish its objectives more effectively than has been possible in the past. In DSA headquarters and field operations, more commodity problems are brought together in one place than in any of the service headquarters. Service there will be valuable logistics training for duties at the unified commands in the field.

Military officers are, however, only a small proportion of the DSA staff. At least 23,300 personnel are civilians who either have worked in the single manager agencies for some time, or who have been transferred from the military departments or other agencies. Obviously, the reduction of some 3,000 personnel spaces in the planned strengths for the accomplishment of missions now assigned to the DSA has come largely from civilian personnel in the military departments. Some of these spaces were vacant, so that their elimination did not result in actual reductions or terminations.

We hope that the DSA has retained the best of the experience available to it among the personnel available for transfer. In the case of the Logistics Services Center, however, the reorganization has resulted in the loss of some excellent and experienced personnel to industry or other agencies.

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IV. SAVINGS AND COSTS

Savings Estimates

The Department of Defense produced a savings estimate for fiscal year 1963 of $27,700,000 in operational costs and $229 million in inventory drawdown as a result of the establishment of the DSA. It is desirable to pin down these estimates as closely as possible in order to understand what further achievements of this type may be expected.

The estimate was produced in this way: In the course of preparing the 1963 budget, the military departments were requested to estimate the costs of operating the single manager and related programs, such as standardization, cataloging, material utilization, and surplus disposal, in the same manner as they would account for and justify such programs in their normal budget presentation. That is, the Army had to figure the cost of 5 single manager agencies (and associated functions), the Navy of its 3 single managers, and the Air Force of its related programs. These estimates totaled $205,400,000.

The DSA planning group then independently estimated what it would cost to operate the agency during fiscal year 1963 after incorporation of the single manager agencies and related programs. This estimate totaled $177,700,000. The difference of $27,700,000 was the basis for the Department of Defense estimate of annual operational savings resulting from the establishment of DSA.[1]

Admiral Lyle explained, however, that this estimated difference of $27.7 million actually related to personnel costs. That is, the DSA planning staff estimated that 3,000 less personnel would be required during fiscal year 1963 for the operation of DSA. The $27.7 million represented salaries associated with these 3,000 personnel spaces, which were not necessarily personnel on board but included many requested increases. Savings attributable to the consolidation of physical facilities in the depot system would have to wait upon subsequent studies and decisions.[2]

In a similar manner, the services were asked to estimate the inventories needed to support the military departments for fiscal year 1963 in the commodities assigned to DSA. The difference between the service estimates and the estimate of the DSA planning staff was $229 million. Admiral Lyle explained that this drawdown was expected to come primarily from the areas of clothing, general supplies, electronics, medical, and industrial supplies.[3]

Estimates made by two separate groups not in close communication are always subject to uncertainty. In the case of personnel, the uncertainty is greater because the technical nature of the last four single manager areas—general, industrial, construction, and automotive—required a number of modifications in the single manager concept. Many personnel, while assigned to a single manager operation or to

[1] Hearings, p. 127.
[2] Hearings, p. 146.
[3] Hearings, p. 146.

disposal or utilization activities, also performed many collateral duties that were not part of these integrated supply operations. Their salaries might be budgeted within this area, but their activities were necessary to the support of the military departments entirely apart from DSA operations. Thus, in the head count of personnel allocation, there are many difficulties which are not apparent from the examination of rosters and personnel strengths. The same applies to equipment and facilities.

On the other hand, the inventory savings estimate probably is underestimated. The size of the inventory drawdown depends on the ability of DSA to straighten up its accounts, validate its inventories, and get them out of the depots. With concentrated effort, the DSA could probably draw down a great deal more than $229 million in inventory.

This estimate is affected, however, by decisions as to needed levels of war reserve stocks and other reserve stocks held for emergencies or for reasons of economy. The quantity of inventory which can be drawn down without danger either of cutting needed supplies too low, or of selling stocks which may have to be bought later at a much higher price, is a matter of judgment on the part of the supply managers in the Department of Defense.

SINGLE MANAGER SAVINGS

The savings estimates discussed in connection with the DSA are additional to the savings estimates which had been developed by the Department of Defense as verified savings derived from single-manager operations.

In May 1959, the Department of Defense had conservatively estimated about $8 million in annual operational savings from single-manager operations, derived from reductions in personnel, storage space, inventory levels, and transportation. There were an additional one-time savings of $87 million derived from the drawdown of inventory stocks. This drawdown, resulting from filling current needs out of existing stock without procuring new stock, created excess cash in single-manager stock funds for use in other areas.[4]

New estimates showed that total savings derived from the single-manager operations up to December 31, 1959, included a net annual dollar savings of $14,377,077; a net personnel reduction of 913; a net storage space reduction of 5,270,793 square feet; a net inventory drawdown of $336,300,000, and other one-time dollar savings of $3,478,829.[5]

As of June 30, 1961, those savings totaled almost $24 million on a yearly basis and more than $500 million on a one-time basis, as shown below: [6]

[4] H. Rept. 674, p. 5.
[5] H. Rept. 2042, p. 3.
[6] Letter from Deputy Assistant Secretary of Defense Paul H. Riley, Oct. 31, 1961.

Summary of identifiable savings to June 30, 1961

ANNUAL SAVINGS

Payroll	$5, 530, 200
Storage	3, 652, 480
Inspection (excluding payroll)	453, 681
Mechanization of jet fuel procurement	5, 000, 000
Transportation	1, 228, 000
Cheatham Annex (warehouse and terminal savings only)	311, 135
Standardization	7, 200, 000
Increased direct vendor shipments	175, 000
Consolidation of maintenance and service functions at MMSA	379, 000
Total	23, 929, 496

1-TIME SAVINGS

Petroleum	4, 379, 678
Transportation	3, 722, 489
Procurement	12, 314, 149
Inventory drawdown (fiscal years 1956–61)	525, 400, 000
Total	545, 816, 316

These single-manager savings were reflected in the budget figures cited by the military services in their total estimate for DSA-assigned functions of $205,400,000.

An additional saving of $1,500,000 is estimated by DSA as the result of the consolidation of the Army and Marine Corps clothing factories with the Defense Clothing and Textile Supply Center. This saving is derived from reduction in overhead personnel and related costs.

The savings which may be derived from the consolidated DSA depot distribution system cannot be estimated until detailed arrangements for the form and administration of that system are worked out by DSA and the military departments.

Costs Associated With Reorganization

The savings and expected benefits of a reorganization—such as that required by the decision to establish DSA—must be matched against cost items associated with the reorganization.

RELOCATION COSTS

One specific cost item that is involved is the transfer of the Defense Logistics Supply Center from Washington, D.C., to Battle Creek, Mich. According to the testimony, $1,500,000 will be expended in facilities, moving, transportation of personnel, household effects, and other costs.[7] This item would seem to cancel the $1,500,000 savings attributed to the clothing factory consolidation mentioned above.

This transfer will require the installation of new automatic data processing equipment at Battle Creek to replace the equipment used by DLSC in Washington. The new equipment will be larger in capacity and may involve some higher rental, operational, and installation charges. It is not clear whether all these charges are included in the $1,500,000 estimate.

The largest cost associated with this move may be the loss of experienced personnel who do not choose to move to Battle Creek. At the time of the hearings, the committee was told that DLSC personnel had been polled to find out their initial intentions regarding

[7] Hearings, p. 123.

a move to Battle Creek. Only 158 out of a total of 397, or about 40 percent, were agreeable to moving. The committee since has been informed that this substantial loss of experience and talent will be less than indicated by the preliminary survey, but it will still be a problem. The testimony indicated that the DLSC would try to use every available means, including direct contract hire, to fill the personnel gap. It is likely that additional training and other costs will be incurred in connection with this move.

Also involved in the relocation of DLSC is the transfer of about 56 personnel from San Antonio, Tex., to Battle Creek. No cost figures were cited for this move, but it is clear that there will be costs, whether or not they are absorbed in "normal operating costs."

CONSTRUCTION AND MODIFICATION

There will be one-time costs associated with construction, rehabilitation, and other arrangements at DSA facilities. It can be argued that some construction might have been required whether or not DSA was established, but DSA has budgeted for some specific alterations and improvements classified as "new construction for field activities" in the fiscal year 1963. While this construction is required for providing larger or more consolidated facilities at certain places to carry out the plan for DSA, it can be said to be additional. It is needed to carry out DSA plans and programs. In other places, facilities have been or will be disestablished, and in some cases disposed of as excess or surplus, to carry out the plan for DSA.

In the 1963 Military Construction Authorization Act, the following amounts were authorized for DSA construction projects: [8]

Cameron Station, Alexandria, Va., operational facilities, administrative facilities, and utilities	[1] $3, 590, 000
Columbus General Depot, Columbus, Ohio, administrative facilities and utilities	3, 191, 000
Gentile Air Force Station, Dayton, Ohio, administrative facilities	1, 296, 000
Military Industrial Supply Agency, Philadelphia, Pa., administrative facilities	1, 020, 000
Total authorizations	9, 097, 000

[1] In the authorization bill, $3,700,000 was requested for this item (H.R. 10202, 87th Cong., 2d sess., see hearing before the House Armed Services Committee on H.R. 10202, Mar. 5, 1962, p. 4004). At the May hearings, General McNamara testified that the DSA headquarters at Cameron Station would cost $3,475,000, including $510,000 for a cafeteria (hearing, p. 122).

The appropriations for these construction items passed the House [9] and Senate,[10] and went to a conference committee. The House Appropriations Committee approved a total of $8,497,000. Its report stated that of the $600,000 cut, a $400,000 reduction should be made in the Cameron Station project, and $200,000 on the Columbus General Depot (Defense Construction Supply Center) construction.[11] The Senate Appropriations Committee approved a total of $8,797,000, and recommended restoration of $200,000 for the Cameron Station project and $100,000 for the Columbus General Depot project.[12] The conference committee recommended restoration of only $100,000 for

[8] H. Rept. 1977, 87th Cong., 2d sess., July 13, 1962, p. 16.
[9] H.R. 12870, see Congressional Record, Aug. 14, 1962, daily edition, p. 15454.
[10] Ibid., Sept. 7, 1962, p. 17772.
[11] H. Rept. 2175, 87th Cong., 2d sess., Aug. 10, 1962, p. 24.
[12] S. Rept. 1994, 87th Cong., 2d sess., Sept. 4, 1962, p. 4.

the Cameron Station project and $50,000 for the Columbus project, and this compromise was enacted.[13]

DATA PROCESSING FACILITIES

Another large item of cost associated with DSA will be the upgrading of the automatic data processing facilities at several supply center locations.[14] Automatic data processing equipment is expensive and difficult to manage efficiently. There are high personnel costs associated with its maintenance and operation.

From one point of view, this aspect of cost is part of the general trend toward computerization of routine, repetitive supply operations. Such cost must be balanced against personnel increases that would otherwise be necessary and against the increasingly technical and difficult workloads associated with more consolidated supply management operations. However, the more computer installations that are established—within each separate military activity—the greater the tendency to utilize such equipment on a one-shift basis. Automatic data processing equipment can be used on a 24-hour three-shift basis for the benefit of several installations, although there are always management questions as to whether such utilization causes conflicts in scheduling and operation by the several users.

The DSA is studying these data processing resources, equipment, and arrangements from the standpoint of compatability and economy. It should at the same time consider, for optimum use, multiple shift operations of this equipment.

COMMAND STATUS

Extra costs may be incurred by the establishment of DSA as a separate military command. A number of single-manager operations had to be divided, with a line of separation between DSA activities and military department activities. While there will be cross-servicing and reimbursable support provided by the military departments to DSA, such additional costs as may be attributed to this factor are not completely eliminated.

The Automotive Supply Center is the best illustration of the problem. What happened was a plain and simple collision of two management concepts. The departments were consolidating functions on a broader intraservice basis, and along came DSA which is consolidating on a broad interservice basis. The changeover from one concept to the other produced some additional costs no matter how one views the problem.[15]

Prior to DSA, the Army had developed a plan for a single manager operation at no additional cost above the operational costs of running the Ordnance Tank-Automotive Command. It was planning, however, to shift certain segments of the commodity area to the construction supply center and the general supply center. Additional costs would have been incurred at those two centers for managing the transferred items, and some costs undoubtedly were incurred in attempting to carry out that organization plan.

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[13] Conference Report No. 2356, 87th Cong., 2d sess., Sept. 12, 1962, p. 4; agreed to by the House on Sept. 12 (Congressional Record, p. 18176), and by the Senate on Sept. 14, 1962 (Congressional Record, p.18420-3).
[14] Hearings, p. 196.
[15] See pp. 57-59 below.

The decision to set up DSA, however, has entailed an estimated $5,500,000 for the annual operating cost of the Defense Automotive Supply Center. This operating cost must represent some additional personnel and other costs which would not have been required except for the establishment of the DSA.

Similar problems were incurred to a greater or lesser degree at all of the single manager operations. Certain "retail" functions had to be severed from the single manager operations; and personnel, files, and equipment had to be transferred to new locations. The Navy set up the Fleet Material Support Office at Mechanicsburg, Pa., to consolidate these "retail" functions in a new way. This activity may not have been necessary except for the establishment of DSA, even if it eventually proves to be a superior method of operation from the Navy's point of view. We do not yet know how the Navy's plan for this office will be affected by the full development of DSA.

The costs which are the direct result of a reorganization always tend to become merged with the past, or with the future, operations of the reorganized system. The committee at this point simply wishes to make the point that there are costs associated with the DSA reorganization which should be balanced against the cost savings. The committee is convinced that the costs savings will be of a greater order of magnitude than the costs, but both sides of the coin should be shown.

V. PROBLEM AREAS

General Accounting Office Criticism

The Comptroller General believes that the Secretary of Defense has not gone far enough in defining the scope and function of the Defense Supply Agency. In testimony before the subcommittee, a GAO witness summarized supply management deficiencies identified and recommendations made in audit reports concerning supply areas now assigned to, or being considered for, Defense Supply Agency management. The specific instances of mismanagement were cited as demonstrating an urgent need for intensive effort to exploit economy potentials.[1] The GAO position is that the "complete spectrum of logistics" is involved, from determination of requirements, through item development, to disposal.[2]

ELECTRONICS ITEMS

In its 1960 report on electronics items, the GAO found that long supplies of one military department were not being used to fill the needs of another, that long supplies were not drawn upon instead of making uneconomic repairs, and that there was duplication of maintenance and stock management facilities. The GAO recommended a wider assignment of management responsibilities to a single electronics agency than had been made to the Defense Electronics Supply Center. For instance, the GAO believed the assignment should include responsibility for Federal Supply Group 58 (communication equipment), for "monitoring" the entry of new items into the supply system, for end-item maintenance programs, and for disposal.[3]

CLOTHING AND TEXTILES

In a series of 1961 and 1962 reports on the then-existing Military Clothing and Textile Supply Agency, the GAO found deficiencies, among others, stemming from too little control of standardization, and failure to use stocks on hand. The GAO recommended that the Director of the Defense Supply Agency be given sufficient decision-making authority to "control" the entry of new supply items, the computation of requirements, procurement, distribution, repair, and disposal programs; and that he should accomplish the maximum practicable degree of standardization. It also recommended that the Defense Clothing and Textile Supply Center should set all military specifications, control research and development on new clothing items, and standardize all clothing items except those which are justified as distinctive or peculiar items of uniform.[4]

[1] Hearings, pp. 16–17.
[2] Hearings, p. 6.
[3] Hearings, p. 8.
[4] Hearings, p. 9.

PHOTOGRAPHIC ITEMS

In a January 1962 report on photographic equipment and supplies, the GAO said that there were continuing failures to exchange excess assets among the services, even in this relatively small category of items managed by the separate services.[5]

FOOD

In a November 1961 report on food items, the GAO cited deficiencies due to unreliable requirements forecasts and resultant excess procurement by the former Military Subsistence Supply Agency. The GAO witness said that these deficiencies probably will be overcome in consequence of the new DSA authority and responsibilities.[6] DSA witnesses also asserted that the new charter and new computation procedures should provide a solution.[7]

AERONAUTICAL ITEMS

With regard to aeronautical supplies, the GAO has provided a series of audit reports dealing with failures in interservicing of long supply items to fill current procurement needs. The GAO has recommended a single organization to manage aeronautical equipment and supplies on a Department of Defense-wide basis.[8]

INDUSTRIAL PRODUCTION EQUIPMENT

In a June 1961 report on industrial production equipment, the GAO found failures to utilize existing supplies for current needs on an interservice basis, and a duplication in the functions of four management offices for such equipment in the military departments and in OSD. The GAO recommended centralization under the direction and control of the Secretary of Defense.[9]

The GAO's general position, as stated in its summary testimony, is this: It recognizes that many of the deficiencies found in the military supply systems for common use items could be overcome "through concentrated and aggressive effort," within the present organizational, policy, and procedural framework, but it questions whether the maximum practicable effectiveness and economy ever will be accomplished through interservice coordination and persuasion.[10]

It expresses the opinion that the new DSA has not been given sufficient authority and positive responsibility to make final decisions in these supply areas, particularly clothing and textiles. While it may be premature to say that the essential elements of more effective supply have not been provided, the GAO view is that the responsive action of the Department of Defense falls short of what is necessary. Further, it says that (1) end items, particularly electronics end items, should be included in the consolidated supply organization; (2) DSA should control the entry of new items; (3) DSA should control standardization and the use of available substitute items; (4) DSA should compute requirements and control provisioning.

[5] Hearings, p. 12.
[6] Hearings, p. 13.
[7] Hearings, pp. 148–149.
[8] Hearings, pp. 13–51.
[9] Hearings, p. 15–61.
[10] Hearings, p. 16.

These points are interrelated and complex. A general discussion of them is contained in the following sections.

Management of End Items

The GAO view that "end items," particularly communications packages, should be included in the DSA assignment, was examined by several witnesses at the hearings. Before taking account of their views, however, it must be made clear that the GAO audit review on this subject was made in 1959 and completed in February 1960. The Armed Forces Supply Support Center study of electronics was completed in February 1961. The Center study placed heavy emphasis not only on technical problems, but on the necessity of maintaining effective control of weapons systems. It recommended that the communications end items, which GAO wants placed under Defense Electronics Supply Center control, be placed instead under a more effective interservicing program,[11] which would in fact meet most of the deficiencies cited by the GAO, if the job were properly done.

The view taken in the AFSS Center study went further: Not only should technical characteristics dictate service management, but control of systems-oriented equipment is vital to combat effectiveness, organizational concepts, and even the statutory roles and missions of the military services. [12]

Reflecting this position, Deputy Secretary Gilpatric told the subcommittee: [13]

> We believe that each service must retain full control over the development, acquisition, and management of their weapon systems. This principle does not exclude integrated management of items used in weapons systems. However, the process of selecting items to be managed by the Defense Supply Agency must be based upon criteria which permit the military departments to retain under their own management those items which are of critical importance to and must be managed with their own weapons systems.

In the light of these views, which have been adopted by the Defense Department, inclusion of end items within the commodity assignments made to the Defense Supply Agency promises to remain a troublesome question. This committee believes that it will not be answered by a simple yes or no. It should be examined and pursued in case-by-case consideration of effective management methods and of various types of equipment which have greater or lesser importance for the success of military missions.

Illustrating the case-by-case solution, General Hardy, executive director of supply operations in DSA, testified that the photographic equipment area is being reexamined. This commodity was studied to death between 1956 and 1959, and the conclusion was that photographic supplies (not equipment) should be assigned to the General Supplies Agency for single management. Now, apparently, photographic equipment "end items," including cameras, projectors, etc., appear susceptible enough to DSA management so that the area is being restudied.[14]

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[11] Armed Forces Supply Support Center, "Report on Management of Electrical/Electronics Materiel," February 1961, vol. I, pp. v., 172; vol. II, pp. 403–440.
[12] Ibid., vol. II, pp. 547–551.
[13] Hearings, p. 64.
[14] Hearings, p. 175.

As another example, Secretary Gilpatric said that the exclusion of weapon-system items would not prevent DSA stocking of aeronautical spare parts.[15]

Support for the AFSS Center view of electronics end items was expressed in the testimony of General Veal, the new commander of the Defense Electronics Supply Center. He did not believe his assignment should include such end items now; that it would be "premature." [16] In his former Air Force role, he has worked with the supply of such equipment and understands the operating problems.

At its present organizational state, undoubtedly the DSA is not ready to take on complicated management tasks, particularly for electronics items that are essential components of aircraft, missiles, ships, and vehicles. On the other hand, it may well be that in the future simpler and more independent types of equipment, such as standard or multiuse radio sets, may prove easily susceptible to central DSA management.

There is, however, another side to this problem that is not going to be helped by case-by-case decisions or future developments. The DSA will have the responsibility of stocking spare parts for hundreds or even thousands of end items, including vehicles, construction equipment, and electronics. To effectively discharge this responsibility, DSA must be well and continuously informed about existing quantities of end items in use by the military services, so that it may intelligently fashion its policies and operations in handling such stocks.

The committee recommends that for the purpose of determining procurement, stockage, inventory, and other policy, a better system of providing data for a central inventory of quantities of DSA-supported end items should be established and used by DSA, with information to be supplied by the military departments. Besides a basic inventory data system, DSA should be assured of having advice and information on policy changes by the military services regarding the phase-in or phase-out of significant numbers of end items being supported by DSA.

Control of New Item Entry

Control of entry of new items into supply systems is another facet of the problem of central (DSA) versus departmental management.

Essentially the DSA regards itself as a servicing or support agency. In General McNamara's words: "The [military] services determine what they want, where they want it, and when they want it, and I see that it gets there." [17] This is an expression of the wholesale and broad service function of DSA.

Delivering the goods in response to user demands becomes more and more exacting and difficult as new items multiply. New technologies, new strategies, new needs cause the rapid growth of new items and a supply management problem of huge dimensions.

Through cataloging, standardization, and a degree of participation in the process of requirements computation, DSA can exert some control or restraining influence over the entry of new items. How far it can go without intruding upon and interfering with user judgment of military needs is a controversial and very sensitive issue.

[15] Hearings, p. 64.
[16] Hearings, p. 164.
[17] Hearings, p. 76.

This much is clear: The more directly a supply item (or end item) is related to key weapon system operations and combat performance, the less effect DSA will have on basic supply decisions. In supply situations less crucial to armed strength, DSA management decisions looking toward more efficiency and economy will be more likely and promising. In standardization of certain military clothing items, for example, Secretary McNamara has given the edict that procrastination should end and standardization be done. Color of undershirts or style of fatigue caps may or may not be insignificant, but certainly they don't win or lose wars.

While military clothing would seem to lend itself more readily to DSA management controls than, say, electronic "black boxes," even here it is difficult to generalize. Conceivably a new pilot helmet might be classified as a clothing item, but if it contained complicated radio gear and many "parts," it could not be handled in the same way as socks and trousers.

The GAO proposal for DSA control of new item entry is reminiscent of a problem which came up when a cataloging bill was drafted in 1952 with the intent of speeding up the Federal catalog program. The bill looked to the creation of a single catalog and provided that only items in the single catalog could be procured for repetitive use. Before its enactment, however, the Armed Services Committees took pains to add this proviso: [18]

> That nothing in this section shall be construed to prohibit the military departments in the Department of Defense from acquiring new items to carry out their missions.

Use of the Federal catalog to control entry of new items makes sense to the extent that items that are duplications, or have superficial differences, or are otherwise unessential, can be blocked from entry into supply systems. It does not make sense to confuse the decision-making of the catalog keeper and the battle commander.

In the context of this discussion, the DSA director is more a catalog keeper. Control over the entry of new items is a greater power than it seems to be on paper, and it must be exercised carefully and with full information.

The cataloger's role is not made easier by the fact that the problems of keeping the Federal catalog up to date and getting rid of duplicate entries, obsolete listings, and just plain errors, are almost overwhelming. Cataloging funds are not easy to obtain from the Congress. Defense witnesses now openly admit that the catalog is weighted with entries of items which have not been used or stocked for years, and that the new areas coming under DSA management control have never been subjected to a thorough catalog cleanup.

Apart from cataloging problems per se, the Department of Defense has made some efforts to apply uniform policy and more stringent procedures to the entry of new items. In 1961 a directive was issued, calling for the achievement of minimum variety and sizes of similar items "consistent with operational requirements," and requiring single managers and all departmental inventory control points to insure review of new items against existing standards and preferred items, and the use of existing specifications, where applicable.[19]

[18] Public Law 82-436, July 1, 1952, sec. 7, second proviso (66 Stat. 320). The proviso is now the second sentence of 10 U.S.C. 2454.

[19] DOD Directive 4100.32, dated Jan. 17, 1961, subject: "Controlling the Entry of Items Into the Military Supply Systems."

At the same time, an operational notice was published by the Armed Forces Supply Support Center prescribing a procedure for carrying out standardization actions in connection with the entry of new items.[20]

These steps concern mainly the provision of information on nonstandard items entering the system, and are not a prohibition or rigid control on such entry.

Standardization

Standardization in military supply systems continues to be a problem of major proportions. Although Secretary Gilpatric and General McNamara both assert that better standardization efforts are a major aim of DSA, prospects for real improvement this year, or even next, are not good.

DSA is charged with administering the Defense standardization program in the form that has existed for many years. It recommends engineering standardization actions, monitors studies, directs item simplifications for DSA–assigned items, and makes changes in the standardization program after reviews and evaluations.[21]

During the first 3 months of operation, DSA made standardization decisions about 2,859 items which are to be phased out of the supply systems.[22]

Some of the decisions on the 2,859 items were difficult. Of the total, 1,250 items were in the general supplies area, which has not even completed catalog purification.[23] The same is true for 488 items in construction supplies.[24] There were 997 items in clothing and textiles, however, which were the occasion for the first battle in the standardization war.

Eliminating the 997 items will increase commonality and decrease the number of clothing-textile items to be handled. Before the decision was made, however, a demonstration of the problem was put before the Secretary of Defense, and there was a long paper battle. It was largely resolved by a letter from Secretary Gilpatric to the Secretaries of the military departments, dated November 17, 1961, in which standardizing actions were directed on (1) men's summer semidress uniforms, (2) buckles and clips,[25] (3) fatigue uniforms, (4) inspectors' and meatcutters' frocks, and (5) women's winter slacks and sweaters.[26]

The General Accounting Office was of the opinion that this clothing and textile episode revealed that inadequate authority had been delegated to the DSA Director, and that the military services could delay standardization even in the face of the directive from the Deputy Secretary of Defense.[27]

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[20] AFSSC operational Notice No. S–1, dated Jan. 24, 1961, subject: "Control of Entry of Items Into the DOD Supply System."

[21] Hearings, pp. 210–11. There are two kinds of standardization action that can be taken. A supply or item standardization action involves choosing between like or similar items, retaining and preferring certain items, and using up and then barring the remainder of items from the system. Engineering or design standardization is required when a new item must be designed to fill a number of uses, or modifications must be made to do so. The new item is then introduced and the others phased out.

[22] Hearings, p. 197.

[23] Hearings, pp. 172–3.

[24] Hearings, p. 425.

[25] This is the "black buckle" episode, in which the four services could not agree among plain gold or silver or bronze or ornamented belt buckles, so the Director, DSA recommended, and Secretary Gilpatric directed the use of painted black belt buckles.

[26] Hearings, pp. 74–75.

[27] Hearings, pp. 18, 24, 31–32.

Department of Defense witnesses emphasized, however, that standardization activity cannot be arbitrary. It must be reasonable and take into consideration operational and morale factors. The decision which has been laid down by the Secretary of Defense, as noted earlier, is that standardization decisions can and must be made on items where the effect on military combat potential would be minimal.[28]

The fact that the Secretary of Defense and his Deputy Secretary have become interested and willing to make some decisions on standardization is a major step forward. Frequently in the past, the military services have "agreed to disagree" with full knowledge that standardization decisions would never be deemed important enough to get high-level attention or support. The initial decisions on clothing are a test case. Furthermore, Secretary Gilpatric's letter to the departmental Secretaries gave further notice of standardization authority in the following words: [29]

> I am directing the Director, Defense Supply Agency, to make standardization decisions on all items which are managed by the Defense Supply Agency.

This is a clear support for enforcement of DSA authority, but it applies only to assigned commodity groups which contain large or predominant numbers of common or common use items. The Defense standardization program cuts across the whole range of items contained in the Federal catalog and used by the military—some 3,600,000 items—only one-third of which are under DSA control.

The test case on clothing and textile items probably has taught subordinate echelons that they cannot simply delay, in the standardization area, and win. Decisions can and will be made, if necessary, at the highest level of authority.

Looking backward, over a 5-year period, the Defense standardization program, which DSA is now charged with operating, has been wholly inadequate. There have been numerous paper schedules and ambitious projects, with constant slippage and delay, and little has been done.

This committee analyzed standardization problems in 1957.[30] We see few concrete benefits from the standardization program since that date.

New items are entering the system at a rapid rate. This is inevitable, as technology advances and new systems emerge. New missiles, new ships, new weapons, are being brought into inventory, and the more complex they are, the more voluminous and varied the supporting spare parts and materiel. Standardization often is difficult or impossible, because obsolescence crowds out systems before they become well established or rate quantity production.

However, the present approach to standardization is not forceful enough. It is unrealistic to try to keep the system operating with ever-increasing numbers of items. Even with complete computerization, the military supply systems are unable to operate efficiently at present levels. Some items always will be given insufficient management attention.

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[28] Hearings, pp. 73–75, 142.
[29] Hearings, p. 75.
[30] See "Defense Standardization Program," seventh report by the Committee on Government Operations, H. Rept. 822, 85th Cong., 1st sess., July 17, 1957.

The drag on standardization shows up in the flood of modifying labels used. There may be only one "standard" item, but older items or substitutes are labeled "limited standard," "standard A, B, and C," "substitute standard," "alternate standard," and the like. These labels and ways of using them probably describe situations where there isn't enough money to buy a "standard" item. The various designations do not seem to help, and even the labels are not "standard" or uniform.

Aiming at a streamlined supply system, the military services should be funded and directed to clean out the unnecessary items from the supply systems and to keep them cleaned out. The decisions as to which items are to be retained should remain a military decision based on operational and combat considerations, but the whole catalog of items should be reviewed in the light of present and future needs.

The committee recognizes that the Department of Defense cannot solve standardization problems overnight, and the Defense Supply Agency is just getting into the business. What the committee does suggest is that the flow of paper schedules now constituting the Defense standardization program is no solution at all. If the DSA is delegated the job of making changes in it, and carrying them through, it will require much more authority, resources, and technical competence than are now assigned it to do a Defense-wide job.

Requirements Computation

The last points made by the GAO that the committee will treat here are requirements computation and control of provisioning. This is not a new subject for this committee. The very first recommendation in House Report 674 was: [31]

> The subcommittee recommends that the existing single manager agencies be strengthened to gain maximum savings and efficiency in performance. The agencies should be authorized to *participate actively in the process of military requirements determination* and should be assigned additional supply management responsibilities as experience dictates. [Emphasis added.]

The GAO said that the electronics assignment does not give DSA authority and responsibility in the requirement area.[32] It also criticized the requirements computation function as formerly exercised in subsistence [33] and clothing-textile supplies.[34]

The deficiencies cited in the food and clothing areas were made under the more limited authority of the single manager operations. It remains to be seen whether the authority of the DSA as exercised will bring about improvements.

That some more authority has been given to DSA with regard to requirements is not in dispute. The DSA charter makes four specific provisions which, if exercised constructively, should cause procurement and stocking to be better proportioned to actual needs. In its

[31] H. Rept. 674, p. 6.
[32] Hearings, p. 17.
[33] Hearings, p. 13.
[34] Hearings, p. 9.

management of assigned items, DSA is responsible for (1) computing replenishment requirements, (2) reviewing special program and mobilization materiel requirements received from the military services and other Defense components; (3) computing special program and mobilization materiel requirements when authorized by the Secretary of the military department concerned; and (4) preparing a Defense-wide requirements forecast for the purposes of procurement, maintenance, distribution, retention, and disposal under applicable policies.[35]

The first two responsibilities are not subject to sufferance of the military services.[36] The third responsibility invites the military departments, if DSA merits such confidence, to delegate increasingly the computing of requirements for common supply items. DSA may earn such confidence by doing a better job than has ever been done before.

DSA must first create a capability; that is, it must set up its offices for this purpose, gather demand data, and verify its operations over a period of time.

In House Report 674, this committee did not recommend that requirements computation be placed in the hands of the single manager agencies; it recommended only that they participate actively. As the GAO has noted in other reports, the computation of requirements should be based on good data and experience. In time, DSA will have the best, and indeed the only comprehensive data on total requirements for most of its assigned commodity items. It should develop more detailed information on different types of usage rates and validate existing formulas where possible.

When it can take on more requirements computation work for the military departments, it should be able to do so without excessive build-up of personnel and costs. Some savings should be produced by having DSA perform such tasks, and a net gain in capability by having DSA personnel able to perform more and better work for all the services than each can do alone.

Provisioning of initial spare parts for end items or weapon systems poses problems similar to those confronting a central supply agency in requirements computation. The GAO criticized DSA's lack of authority to control the provisioning process, referring specifically to electronics items. Whether DSA can determine, better than the weapon users, initial spare part requirements, is a key issue. Frequent instances reported by the GAO of excessive spare parts procured from weapon system contractors at noncompetitive "sole-source" prices, provide the rationale for its proposal that DSA control the provisioning process.

The GAO criticized the lack of DSA authority to control the provisioning process, referring specifically to electronics.[37]

In some supply areas, good provisioning depends on proper use of supply experience data to determine the quantities of items initially needed to support a system. In others, there are little or no experience data to guide the making of such educated guesses. Data on the same part or component used in another system may or may not be a guide to failure and wear out in the system under consideration.

[35] Hearings, p. 212.
[36] Hearings, p. 83.
[37] Hearings, p. 17.

Particularly in the electronics area where, as General Veal put it, parts "do not wear out; they fail," there seems to be little need for DSA control of provisioning at this time. If DSA develops into a major source of technical expertise on failure rates and other factors, there may be a time in the future when it should have a more active part in the process. In the meantime, DSA might well direct its attention to provisioning problems to identify the most aggravated ones and to evaluate the possibilities for central agency roles.

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VI. COMPONENT ORGANIZATIONS

General

The Defense Supply Agency consists of a headquarters and a number of field activities.

The field activities placed in DSA are extensive. For convenient reference, they are listed as follows, with their former position in the military departments from which they were transferred:

DSA activity	*Former activity*
Defense Medical Supply Center, Brooklyn, N.Y.	Military Medical Supply Agency (Navy single manager).
Defense Subsistence Supply Center, Chicago, Ill.[1]	Military Subsistence Supply Agency (Army single manager).
Defense Clothing and Textile Supply Center, Philadelphia, Pa.	Military Clothing and Textile Supply Agency (Army single manager).
Defense Clothing Factory, Philadelphia, Pa.	Army and Marine Corps clothing factories (located with M.C. & T.S.A.).
Defense Petroleum Supply Center, Washington, D.C.	Military Petroleum Supply Agency (Navy single manager).
Defense General Supply Center, Richmond, Va.	Military General Supply Agency (Army single manager).
Defense Industrial Supply Center, Philadelphia, Pa.	Military Industrial Supply Agency (Navy single manager).
Defense Construction Supply Center, Columbus, Ohio.	Military Construction Supply Agency (Army single manager; agency was only partially established).
Defense Automotive Supply Center, Detroit, Mich.	Military Automotive Supply Center (Army single manager agency not established).
Defense Electronics Supply Center, Dayton, Ohio.	No single manager. Air Force had electronic tube single department procurement assignment.
Defense Logistics Services Center, Battle Creek, Mich.	Armed Forces Supply Support Center (jointly funded center under Defense Department and joint council direction; less Analysis Staff and Standardization Division which are incorporated in DSA headquarters.
Defense Bidders Control Center, Battle Creek, Mich.	Armed Forces Surplus Bidders Registration and Sales Information Office, Kelly AFB, San Antonio, Tex.
Defense Surplus Sales Offices [2]_____	Consolidated Surplus Sales Offices (operated by the four military services on a single-service, regional basis).
Defense Transportation Management Service, Washington, D.C.	Military Traffic Management Agency (Army single manager).

[1] There are also 10 regional DSSC headquarters at Chicago, Columbia, S.C., Fort Worth, Tex.; Kansas City, Mo.; Los Angeles, Calif.; New Orleans, La.; New York City; Oakland, Calif.; Richmond, Va.; and Seattle, Wash.

[2] See p. 39 below for list of office locations.

AGENCY HEADQUARTERS [1]

DSA headquarters is located in the Munitions Building on Constitution Avenue, and in Barton Hall, Washington, D.C.; and at Cameron Station, Alexandria, Va. The whole headquarters will move to Cameron Station when the renovation of warehouse space into office space there is completed.

Headquarters had 108 military officers and 319 civilians, a total of 427 personnel in April 1962. This staff is expected to increase to 750 at the end of fiscal year 1963 as major responsibilities are assumed by the agency.

The principal officer is the Director, Lt. Gen. Andrew T. McNamara, U.S. Army, who is a former Quartermaster General of the Army. His deputy is Rear Adm. Joseph M. Lyle, Supply Corps, U.S. Navy, former commanding officer of the Navy's Aviation Supply Office.

General McNamara began the task of establishing and organizing the new agency headquarters on October 1, 1961, with a nucleus of personnel drawn from the military services, from the Office of the Assistant Secretary of Defense (Installations and Logistics), and from the Analysis Staff and Standardization Division of the Armed Forces Supply Support Center.

The headquarters staff assists the Director in the organization, direction, management, administration, and control of the major field activities, and in the execution of central policies and programs.

This staff is divided into major functional areas. DSA has its own Inspector General and offices for administration, manpower, comptroller, and counsel. There are four functional executive directorates.

PLANS, PROGRAMS, AND SYSTEMS

The Assistant Director for Plans, Programs, and Systems is Maj. Gen. Roy T. Evans, Jr., U.S. Army, former Deputy Quartermaster General. The directorate is in charge of making long-range analytical studies of new commodity areas which are or may be placed under DSA cognizance. This directorate also is in charge of reviewing the various DSA systems for improvements, designing a compatible DSA data system, relating military plans to DSA programs, and supervising the plans and programs of other DSA units. It is performing the study of the DSA depot and distribution system and of new commodity areas for possible assignment to DSA—industrial production equipment, chemical supplies, and aeronautical supplies.

PROCUREMENT AND PRODUCTION

The Executive Director for Procurement and Production in DSA headquarters is Rear Adm. Charles A. Blick, Supply Corps, U.S. Navy (formerly Service Forces and Fleet Supply Officer, U.S. Atlantic Fleet). The directorate is responsible for procurement policy; for industrial mobilization and priorities and allocations programs; for preaward surveys and qualified products lists; for value analysis, quality control, and other special programs. A Defense Supply Procurement Regulation has been produced by this directorate as a separate adaption of the Armed Services Procurement Regulation to the procurement of common supply items.

[1] See the headquarters prepared response to subcommittee questions, hearings, pp. 183-201.

SUPPLY OPERATIONS

The Executive Director for Supply Operations is Maj. Gen. Donald L. Hardy, U.S. Air Force, a former commanding officer of the Middletown Air Materiel Area. The responsibility of this directorate extends to policies for materiel management, requirements, distribution, and inventory control, and for the management of the depots and facilities from which DSA will operate. This directorate is also responsible for the "coding" programs which produce the division of responsibility, item by item, among the DSA and the military services for the items in the Federal Supply Groups assigned to DSA for central commodity management.

LOGISTICS SERVICES

The Executive Director for Logistics Services is Maj. Gen. Francis Gideon, U.S. Air Force, formerly Director of Data Systems, Headquarters, Air Force Logistics Command. His directorate will provide guidance for the activities of the Defense Logistics Services Center and also provide guidance in the management of broad program functions such as cataloging, standardization, materiel utilization and transportation. It will be responsible for liaison on research and development activities.

EMERGENCY SUPPLY OPERATIONS

There is an Emergency Supply Operations Center in DSA headquarters. This office is a flexible component. It may simply be a point of contact for urgent or immediate problems from military activities in the field. But it can be rapidly expanded where there is a major emergency, such as a disaster, flood, hurricane, or military contingency for which there must be an immediate supply response. This is, in a sense, an additional short circuit which can lay aside the redtape and arrange for the delivery of badly needed supplies to the right place on short notice. It must be able to operate across the board for DSA commodities and services.

The annual operating cost of DSA headquarters was estimated at $2,600,000 for the last half of fiscal year 1962, and at $7,700,000 for fiscal year 1963.[2]

Defense Logistics Services Center [3]

The Defense Logistics Services Center is commanded by Col. C. C. Case, U.S. Army. Colonel Case has been in the Supply Management Policy Office of the Assistant Secretary of Defense (Installations and Logistics). The Center is being moved to Battle Creek, Mich., in three phases, to be in place by January 15, 1963. The Defense Surplus Bidders Control Office, formerly at San Antonio, Tex., also will move to Battle Creek.

The Center contains the remainder of the Armed Forces Supply Support Center (less the analysis staff and standardization division which have become part of DSA headquarters), and will consist of four principal operating divisions: (1) cataloging, (2) materiel inter-

[2] Hearings, p. 190.
[3] See the Center response to subcommittee questions, hearings, pp. 263–268.

servicing, (3) utilization and marketing division, and (4) data processing. Data processing directly supports the cataloging and materiel utilization programs. The Federal catalog is a tool for handling not only these functions, but for the identification of all supply items used by the Department of Defense and other agencies.

Cataloging is a centralized operation as far as data processing and handling of the central file are concerned, but each of the supply centers and each of the inventory managers in the military departments is responsible for maintenance of technical data and detail descriptions for items in assigned Federal supply groups and classes.

The material interservicing function, which concerns all items in the defense catalog and inventory, requires coordinated work with requirements, procurements, and inventory units of all the departments and agencies in the Department of Defense.

The marketing or disposal of surplus requires interagency coordination with the General Services Administration; the Department of Health, Education, and Welfare; the Office of Civil Defense; and other agencies. This function also involves dealing with private purchasers or recipients of surplus property.

Under the Defense Logistics Service Center are 4 regional offices and 34 defense surplus sales offices, at the following locations:

Seattle, Wash.
Oakland, Calif.
Sacramento, Calif.
Latrop, Calif.
San Diego, Calif.
Norton AFB, Calif.
Barstow, Calif.
Tucson, Ariz.
Ogden, Utah
Pueblo, Colo.
Fort Bliss, Tex.
Kelly AFB, Tex.
Fort Worth, Tex.
Tinker AFB, Okla.
Fort Leavenworth, Kans.
Rock Island, Ill.
Granite City, Ill.
Gentile AFS, Ohio
Memphis, Tenn.
Brookley AFB, Ala.
Jacksonville, Fla.
Albany, Ga.
Forest Park, Ga.
Norfolk, Va.
Lexington, Ky.
Fort Holabird, Md.
Columbus, Ohio
Philadelphia, Pa.
Fort Dix, N.J.
Olmstead AFB, Pa.
Chambersburg, Pa.
Brooklyn, N.Y.
Schenectady, N.Y.
Newport, R.I.

The annual operating cost of the Armed Forces Supply Support Center in fiscal year 1960 was $5,818,000; in fiscal year 1961, it was $5,365,000. The Armed Forces Supply Support Center was financed with a joint management fund, each of the military departments contributing one-third of the operating costs. For fiscal 1962, the Defense Logistics Services Center estimated a total cost of $9,601,000, of which $5,501,000 represented the cost of those elements comparable to the functions of the former Armed Forces Supply Support Center, and $4,100,000 represented the cost of the property disposal program.

The testimony at the hearings indicated that only 40 percent of the personnel affected by the reorganization and relocation of this Center intended to move to Battle Creek. It was recognized that such a loss of experienced personnel who were familiar with the catalog and data processing systems which are the basis of the Department's interservicing and utilization programs would be a very serious loss of

skills.[4] Many of the persons who have been associated with the Federal catalog since its inception and who have been responsible for introducing and carrying out the complicated data procedures have been lost to other agencies or to industry.

This committee noted in House Report No. 1214 (87th Cong., 1st sess.) the importance of thorough and efficient materiel inservicing and utilization programs. These must be strengthened in order to prevent the waste of Government assets. Such programs also save procurement leadtime for items already in inventory. The reorganization attending the formation of DSA unfortunately hampers the efficient operation of this part of the supply-management program.

Recently, while more material has been exchanged through the interservicing program among the services, less has been utilized from excess declarations than in previous years. This is attributed to the increased supplies required for the Berlin buildup, and to the fact that the services justifiably reduce their declarations of excess in the face of such a buildup. If so, there is likely to be a larger flood of material declared excess next year.

The new Defense Supply Agency cannot justify its claims for savings if materiel utilization is not carried out in the most competent manner that can be devised. This Center is and must be the key to the most efficient utilization of $13 billion worth of long supply which now exists in the Department of Defense. It must be given sufficient authority, support, and resources to make economical arrangements for the handling of these items in long supply. There must be efficient screening to find substitute and alternative uses for material among Defense agencies, other agencies of Government, and domestic and foreign aid programs. The Center must receive better and more timely information from the military services in order to be able to plan for and handle the material which flows through this disposal funnel.

A recent report by the Comptroller General (B–146748, dated August 31, 1962) indicates that most of the same deficiencies cited by this committee in House Report 1214 last year still occur, and most of the same corrective actions recommended by this committee are still required and still incomplete. This is a further indication of the urgent need for improvement of the programs for handling excess and surplus.

Defense Medical Supply Center [5]

The Defense Medical Supply Center, Brooklyn, N.Y., is commanded by Rear Adm. William L. Knickerbocker, Supply Corps, U.S. Navy. Admiral Knickerbocker has been head of the activity since 1956.

The functions and activities of this Center have not been significantly affected by its transfer to the Defense Supply Agency, but there have been readjustments.

The transfer to DSA Command eliminates two echelons of review authorities at the Navy Bureau of Supplies and Accounts and Navy secretarial levels. The DMSC commander reports directly to DSA. The Center retains, however, the same working relationships with the Defense Medical Materiel Board (formerly called the Armed Services Medical Materiel Coordination Committee) on research and develop-

[4] Hearings, pp. 124–125.
[5] See Center response to subcommitttee questions, hearings, pp. 269–280.

ment matters, and it has the same degree of cooperation with the Surgeons General of the military services.

In accordance with recent policies developed for single managers, the Navy undertook in July 1960 to integrate retail medical material functions with the Military Medical Supply Agency. Upon the formation of the Defense Supply Agency, these retail functions had to be separated out again. A number of personnel was transferred to the Navy's new fleet material support office at Mechanicsburg, Pa.

The Center was programed to handle $90,700,000 in procurement of medical supplies for fiscal year 1962. It managed an inventory valued at about $230 million. Stocks are now concentrated at 11 locations, one of which is for storage only. One storage location was phased out in the 1962 fiscal year.

The annual operating costs of the Center were $3,251,000 for fiscal year 1960, $3,382,000 for fiscal year 1961, and $3,677,000 for fiscal year 1962. Civilian personnel employed by the Center were reduced from 640 in 1960 to 446 in 1962, a reduction due largely to the transfer of building custody to the General Services Administration. Military personnel have been reduced from 52 to 48 in the same period, and are now being reduced to 37 or less officers and enlisted men.

ACCOMPLISHMENTS

The number of items handled by the Center was reduced from 9,300 in 1959 to 8,500 in April 1962. The Center states that many new items have been added to the medical distribution system, but there has been quick consideration and determination regarding the elimination of obsolete or less effective items.

The Center has converted a number of operations to automatic data processing. Stock control, demand analysis, and computation of peacetime and mobilization requirements were among the converted operations.

Through contract surveillance, the problem of delinquency in contracts let by the Medical Supply Center almost has been eliminated, according to the information furnished the subcommittee. Delinquency amounted to only 0.8 percent in December 1961.

Various activities have been performed for the benefit of other Government agencies and programs. The Center has undertaken, since May 1961, to provide the Veterans' Administration, upon request with medical supplies either from procurement or from stock. The Center continues to procure supplies for the Department of Health, Education, and Welfare (Public Health Service) for use in connection with the civil defense stockpile. Arrangements have been made with the Atlanta, Schenectady, and Sharpe General Depots to produce fallout shelter medical kits for the national shelter program. The Center expects to assemble and distribute $265,500 of these kits.

The Medical Supply Agency has been the leading single manager agency to take seriously the problem of reduction of vulnerability of essential stockpiles. The Agency completed a study of measures which could be taken to reduce such vulnerability during fiscal year 1961 and reported its results to the Navy Bureau of Supplies and Accounts. It is further examining possibilities of underground storage facilities in conjunction with other Department of Defense officials.

The committee hopes that such efforts as these will not be neglected under Defense Supply Agency leadership.

In another interagency effort, the Center developed a program for exchange of long supply items between military medical stocks and those of the Public Health Service's civil defense stockpile. This program ran into an initial snag due to a Comprtoller General ruling that an exchange of unlike items could not be made under the Economy Act where any cash reimbursement was involved. A new exchange arrangement has been made under the provisions of the Federal Property and Administrative Services Act, each agency declaring items excess for this purpose and releasing them to the other.

The Center reports an estimate of $8 million in savings attributable to competitive purchases from both foreign and domestic sources,[6] from redesign of packing requirements, and by the substitution of existing items for similar new procurement. It has managed the medical mobilization stocks so that the specific mobilization requirements of the military services were 93 percent filled in December 1961, compared to a 50-percent fulfillment of such requirements in 1959. Other special programs at DMSC included procurement for the medical material program for nuclear casualties, equipping emergency reserve hospitals, procurement of field evacuation hospitals for West Germany, and procurement of smallpox vaccine for the British Ministry of Health.

The Defense Medical Supply Center is an "old line" agency. Its field is relatively small and well defined. But it sets a level of effort toward improvement, economy, and efficiency that the committee hopes other DSA Centers will achieve. It has taken on all facets of medical procurement, including requirements computation, and, under the initiative of its commander and staff, has sought to balance a variety of needs in order both to provide for efficient supply and to provide against emergencies. Its plans appear to be timely and careful.

Defense Subsistence Supply Center [7]

The Defense Subsistence Supply Center, Chicago, Ill., is under the command of Maj. Gen. Thomas B. Evans, U.S. Army. General Evans served for 1 year as the Deputy Director of the former Military Subsistence Supply Agency, which has been transferred almost intact to the Defense Supply Agency.

As one new task, the Center began to compute replenishment requirements on July 1, 1962. It had prepared for the job by accumulating demand data for 2½ years and by developing a format for gathering demand information on a continuing basis from the military services.

Defense Subsistence Supply Center handles annual procurements of about $850 million in both perishable and nonperishable food items during fiscal year 1962. It also managed inventories of about $110 million in nonperishable stocks. Items handled by the Center are all included in Federal supply group 89, but the assignment has been made open end for addition of other groups and classes of items, and it specifically includes brand-name resale subsistence items. Brand name items normally are carried only by commissary and other resale activities. They are not included as Federal supply classification items because such items are described only in generic or quality terms.

[6] The Military Operations Subcommittee staff has undertaken a study of the issues raised by Defense Medical Supply Center procurement of drugs from foreign manufacturers.

[7] See Center response to subcommittee questions, hearings, pp. 290-321. Some figures are taken from the Center's quarterly single manager assignment report for the fourth quarter 1962.

The annual operating costs of the Subsistence Center for fiscal year 1960 were $14,960,000, $15,820,000 for 1961, and $16,191,000 for 1962. The increases represent pay raises and reimbursement to the Navy for nonperishable subsistence storage at Oakland and Norfolk Naval Supply Centers. In fiscal year 1962, commercial storage rates and perishable subsistence procurement costs increased.

The costs just cited are direct costs only. Certain items of nonreimbursable support, estimated to total $16 million annually, are not reported to the Center. These include Army and Air Force veterinarian inspection services, handling and storage of nonperishable subsistence in the depot system, and various administrative support services.

The Defense Subsistence Supply Center has a total of 1,673 personnel, including 128 military and 1,545 civilians. Of these, 370 are located at Defense Subsistence Supply Center headquarters and the rest at 10 regional offices in the field. These regional offices formerly were designated Quartermaster Market Centers.

The Subsistence Center has reduced the number of items it manages from 1,427 to 1,265 line items in the past 3 years. More than half of the items now are used by all four military services. Less than a third of the items are used by only one service. The Center reports that it plans to hold annual meetings to increase the degree of standardization in these basic food supply items.

In other respects, the Subsistence Center continues to operate on what may be called lean fare. The 10 regional offices handle procurement of perishable items on a decentralized basis. Functional consolidations have been made to provide better service to naval activities and to reduce operating costs, and procedural improvements have been made.

The Center works with the Department of Agriculture in developing a national food plan for disaster conditions. Under the plan, the Department of Defense is a claimant agency for food for the military services.

While the Center is the standardization assignee for food items, it does not participate directly in research to increase shelf life of food stocks. The committee observes that this appears to be one DSA Center where the shelf-life problem bears upon the role of the agency to too great a degree. As a "wholesaler," the Center may be said to have a primary interest in increasing the shelf life of food stocks. It should participate actively with the military departments in seeking shelf-life improvements.

Defense Clothing and Textile Supply Center [8]

The Defense Clothing and Textile Supply Center, Philadelphia, Pa., is under the command of Maj. Gen. Oliver C. Harvey, U.S. Army. General Harvey has had extensive field and headquarters experience in supply. He took over command in Philadelphia in June 1961.

This Center encompasses the former single manager operation, except that the neighboring Army and Marine Corps clothing factories are being merged into it. The merger will result in an estimated personnel reduction of 218, and other factory overhead and support cost

[8] See Center response to subcommittee questions, hearings, pp. 322-352. Some figures are taken from the Center's quarterly single manager report for the fourth quarter, 1962.

reductions of $1,600,000 annually. The Center plans to reduce prices charged for items produced at the factory as a result of these cost cuts. The prices will still be higher than industry prices for standard items, due to the special nature of the orders filled, however.

The shift from the Army to the Defense Supply Agency eliminates command intervention by the Quartermaster General, Deputy Chief of Staff for Logistics, and Office of the Army Secretary. The Center now reports directly to DSA.

The Center handled $367,615,000 in clothing and textile procurement in fiscal year 1962, and an inventory valued at $1,139,163,000 at the end of the year.

The annual operating costs of the Clothing and Textile Supply Center were $8,017,600 for fiscal year 1960; $8,337,000 for 1961; and $9,086,300 for 1962. However, the total clothing and textile activities now financed by Defense Supply Agency, which include depot operations, regional stock control, and other overhead, were estimated at $19,306,056 for fiscal year 1962.

The personnel complement of the Center comprises 61 military and 1,294 civilian personnel. Agency personnel were sharply reduced between 1959 and 1960, due to a transfer of certain stock control functions from the single manager agency to the Philadelphia Quartermaster Center; but there was a small expansion in 1962, ascribed to Berlin buildup activity.

IMPROVEMENT EFFORTS

The Center continues to attempt to reduce the number of items in its assignment. The total of items in the clothing and textile system as of July 1962 was 27,480, as compared to 43,910 which were capitalized and received from the military services in 1956–57. These reductions have been accomplished largely by "supply standardization" actions and catalog cleanup. Item stock numbers for which no inventory exists are dropped from the catalog. Other items are designated nonstandard; no new procurement of them is authorized, and existing stocks are used up as substitutes for standard items. GAO reports and Defense testimony indicate that there are still many standardization actions which may be prudently taken without harm to the military capability of the armed services.

The Center reports several attempts it has made to achieve economies in clothing supply management. It instituted the Army-conceived five-by-five program to permit the procurement of about 8,200 items with annual requirements of $5,000, or less or up to 5 years stock, whichever is less. The aim here is lower cost of purchase, administration, and handling for low value, low demand items.

The Center also attempted to establish variable safety levels for certain items which have wide demand fluctuations by providing for the stockage of such items at a minimum inventory cost. The funds needed for this plan were not made available in 1962, but the Center achieved its objective in 232 items where stocks were in long supply elsewhere.

Efforts were made to encourage contractors to set up and use quality control systems, to increase the Center's own quality audit examinations, to have contractors use the acceptable suppliers list, to maintain the qualified manufacturers list, and to assure the quality

of laboratory testing procedures. The qualified laboratory list is one of the devices recently instituted as a part of this program.

Under a former Air Force-Military Clothing and Textile Supply Agency agreement, the Center has assumed procurement responsibility for standardized special flight clothing and accessories. The Air Force retains supply management and funding responsibilities. Similarly, the Clothing and Textile Supply Center has agreed to buy some medical-type clothing items for the Public Health Service.

The inventory reductions which have been accomplished in the clothing and textile area have been a major source of the savings produced by the whole single manager system. The peak inventory assumed by the Military Clothing and Textile Supply Agency was $1.9 billion in fiscal year 1958. The present Defense Clothing and Textile Supply Center level of inventory is $1.1 billion. About $681 million in cash has been generated from appropriated fund purchases by the military services in excess of the funds actually required for purchases to fill new orders. The rest of the drawdown is excess disposal rather than sales.

Since 1956, when the Military Clothing and Textile Supply Agency entered the picture, a total of 5.3 million square feet of storage space has been released from clothing inventory storage requirements. The number of storage locations now has been reduced to 12, in accordance with the original objective of Military Clothing and Textile Supply Agency. However, under a current plan the clothing storage and distribution system is being reduced to 11 locations.

SUPPLY EFFECTIVENESS

Defense Clothing and Textile Supply Center (Military Clothing and Textile Supply Agency) suffered a visible and obvious strain during the Berlin buildup. Many clothing items ran out when the services called for quantities needed to equip the new divisions and forces called into action to meet the Berlin crisis. The Defense Supply Agency takes the position that many of these items which turned out to be in short supply were really garrison-type items and not field equipment which is stocked in depth in the wholesale stocks to be on hand for emergencies.[9]

However that may be, the supply effectiveness of the clothing center fell from a 93-percent ability to fill orders from stock in July 1961 to 66 percent in October 1961. While this index had bounced back to 97 percent in March 1962, it is clear that the surge of orders during the buildup swamped the facilities of this and other centers. This seems a serious matter for consideration. The procedures and resources of these supply centers should be capable of handling surges of orders of this size wihout such a drastic drop in overall efficiency. The military departments should be able to expect that such crisis demands will be met as an ordinary contingency of DSA business.

On the whole, the committee believes that significant progress has been made in clothing and textile supply in the past 5 years. Single management has almost gotten control of a commodity supply problem that has always been difficult, fraught with problems on the production side and in the management, distribution, and issue areas. Inventories are becoming manageable, although strong efforts should

[9] Hearings before Special Subcommittee on Defense Agencies, Committee on Armed Services, House of Representatives, 87th Cong., 2d sess., June 4-July 31, 1962, pp. 6832, 6879.

be made to balance them against the range of contingencies to a better degree. Every effort should be made to compute service uniform requirements more accurately and achieve standardization wherever possible. In this connection, continued effort should be made in conjunction with the military services to produce uniform clothing designs for items that are common to two or more services except for color.

Defense Petroleum Supply Center [10]

The Defense Petroleum Supply Center, Washington, D.C., is commanded by Rear Adm. Thomas L. Becknell, Jr., Supply Corps, U.S. Navy. Admiral Becknell has had extensive field and headquarters supply experience. He took command of the petroleum agency in August 1961.

PETROLEUM PROCUREMENT ROLE

The Center bought $1,187,114,000 worth of petroleum products in fiscal year 1962, accounting for a major portion of DSA procurement volume. As the exception in the single manager program, however, the petroleum agency has never had a role in inventory control, storage, and distribution. The prior reports of this committee have dealt with the agency's role.[11]

Certain additions have been made to the mission of the Center, which should soon begin to produce savings.

By memorandum of December 30, 1959, the Military Petroleum Supply Agency was given authority and responsibility to select source and means of transportation to meet resupply requirements involving tanker, barge, and tanker-barge combination movements. Under the memorandum, the military could authorize Military Petroleum Supply Agency to order such movements from industry. The Army and Navy granted Military Petroleum Supply Agency such authority for most locations. The Air Force did not. The procedure went into effect March 1, 1960, and savings have been produced continuously by arrangements to insure that tankers sail with full cargoes, to eliminate unnecessary voyages.

Another feature of the December 1959 memorandum was that it authorized the military departments to move their inventory control functions into the same or neighboring buildings with Military Petroleum Supply Agency. The Army and Navy have done so; the Air Force has not. In a May 2, 1961, memorandum from Deputy Secretary of Defense Gilpatric, the Air Force was ordered to locate its inventory control point personnel with Military Petroleum Supply Agency.[12] According to General Hardy, the directive was reviewed by Assistant Secretary of Defense Morris, and was rescinded.[13] Thus, Air Force inventory control functions are not colocated with the Center in Washington, but are operated at Middletown, Pa.

[10] See Center response to subcommittee questions, hearings, pp. 353–366. Some figures are taken from the Center's quarterly single manager assignment report for the fourth quarter, July 1962.
[11] H. Rept. 674, pp. 8, 28–31; H. Rept. 2042, pp. 22–25.
[12] Hearings, p. 354.
[13] Hearings, p. 168.

PACKAGED PETROLEUM STOCK MANAGEMENT

The memorandum of May 2, 1961, contained another direction which was put into effect, however. Secretary Gilpatric ordered that packaged petroleum products be placed under Military Petroleum Supply Agency control at the earliest possible date. Military Petroleum Supply Agency was to get ownership of wholesale stocks; ownership of prepositioned war reserve stocks was to remain with the military services. Ownership of general mobilization stocks was to go to Military Petroleum Supply Agency. (Only the Navy, which then ran Military Petroleum Supply Agency, had general mobilization stocks.)

With the announcement of DSA's formation, the planning and execution of this change became the Center's responsibility. The plans worked out under the directive authority call for the military services to retain ownership and management of bulk lubricants and packaged fuels. Bulk lubricants are those lubricants delivered by tanker, barge, pipeline, tank car, or tank truck; packaged lubricants are those in 55-gallon drums or smaller containers, such as 5-gallon pails or gallon and quart cans.

The assignment was to be put into effect on July 1, 1962. The total significance of this assignment is not great. Although packaged petroleum products account for about 860 of the 1,000 items assigned to Defense Petroleum Supply Center, they represent about $49 million in annual procurement, as compared to the billion-dollar volume in the 100 items of bulk fuels. Defense Petroleum Supply Center will gain some inventory operating experience, will manage a $21 million stock fund, and will be able to plan for the consolidation of 17 depot locations into 7.

MANAGEMENT OF BULK FUEL STOCKS

As before, the big question is the control of fuels, which becomes critical in wartime. It is obvious to everyone concerned that the wartime fuel supply problem is one of allocation of a scarce commodity. There will either be continued delivery of product, in which case central management can provide the most economical delivery, or it is only a question of who uses the last gallons in the existing storage tanks. The latter is a question of unified strategic or tactical command, and in all oversea areas, a joint petroleum office of the unified commands under the Joint Chiefs handles petroleum logistics.

Petroleum is a vital commodity; mistakes or delays could seriously impair wartime mission capability. But the new technical areas being placed under DSA management, such as electronics and automotive parts, are no less vital for the conduct of military operations.

Secretary Gilpatric has informed the committee that Admiral Becknell had conducted a study and recommended Defense Petroleum Supply Center assumption of management of bulk inventories. General McNamara was briefed in February 1962. He decided that a more formal study, to include participation by the military departments, would be required before he could recommend such a step to Secretary McNamara. It is expected that Secretary McNamara will authorize such a study in fiscal year 1963.[14]

[14] Hearings, p. 83.

By the time such a study is completed, some results and reporting should be available on the adequacy and efficiency of Defense Petroleum Supply Center efforts in the execution of its packaged petroleum products stock management assignment. This underlines the importance of a successful performance of that mission. Defense Petroleum Supply Center must earn the confidence of the military departments by efficient service as well as proving the value of central management in making economical improvements in the system.

SIZE, COSTS, AND ACTIVITIES

Defense Petroleum Supply Center is staffed by 22 military officers (9 Navy, 7 Air Force, and 6 Army) and 186 civilians. This complement includes 22 civilian spaces added to carry on the packaged petroleum products assignment.

The annual operating costs were $1,200,000 for fiscal year 1960; $1,393,000 for 1961, and $1,679,000 for 1962. Increases are attributed to civil service pay raises in 1960, to increased resupply activities, and to the added spaces for the packaged products assignment.

Some costs are associated with new mechanized bid evaluation procedures. Substantial reduction has been made in the time required for evaluation of complex bids involving hundreds of offers and hundreds of variables, through the use of automatic data processing. Until recently, the Center has rented computer time from other Washington activities rather than buy its own ADP system. A number of other functions have been converted to machine processes to speed up aspects of petroleum logistics, such as a new fuel purchase procedure and reporting of tanker movements.

The Center has reduced by 41 percent the number of items in its assignment. The catalog carried 1,858 items in 1956. The number is down to 1,000, including additions as well as deletions.[15]

A major accomplishment in the field of standardization has resulted from Defense Petroleum Supply Center interservice cooperation to standardize on a single grade of aviation gasoline on a worldwide basis. Since 1945, there have been four grades (octane ratings 80/87, 91/96, 100/130, and 115/145) in the military supply system. Beginning July 1, 1962, grades lower than 115/145 will be supplied only in certain cases within the continental United States where the fuel is delivered directly from an industry supplier to a base at a lower cost. These qualifications mean that the exceptions will be few, and standardization is substantially achieved. According to Defense Petroleum Supply Center, this change increases availability of high-grade fuel needed for emergency operations and produces savings in purchasing, transportation, storage, servicing equipment, accounting, and operational overhead.

The Center reports that the total additional cost to the military resulting from the mandatory oil import program, a cost over which it has no control, has reached $26,100,000. The Center has been working within its restrictions and limitations under this program to procure imported items that result in the greatest savings possible to the Government. For instance, it recently shifted some foreign purchases from jet fuel to motor gasoline in order to gain the benefit of a

[15] Instead of being eliminated, some 160 items were transferred to the Defense Industrial Supply Center.

cost disparity in motor gasoline supplies available from foreign sources.[16]

Against the added costs of the mandatory import program, Defense Petroleum Supply Center pointed out that it procured 13,700,000 more barrels of petroleum products in fiscal year 1961 than in 1960, with $13 million less cost. If the price per barrel had been maintained at 1960 levels, the added cost to the Government would have been $65 million.

The Defense Petroleum Supply Center has, in continuation of previous interest by the Justice Department and others, maintained an active scrutiny of the conditions of competition within the oil industry. About 543 instances of identical bidding have been reported to the Attorney General, but there have been no indications of collusion among suppliers.

In summary, Defense Petroleum Supply Center appears to have been highly competent, devoted, and continuously alert for ways to lower costs and eliminate unnecessary duplication and waste effort. It should be able to justify the confidence placed in it by the services, and to carry out added responsibilities as they are assigned.

Defense General Supply Center[17]

The Defense General Supply Center, Richmond, Va., is commanded by Maj. Gen. Victor J. MacLaughlin, U.S. Army. General MacLaughlin has had extensive field and headquarters supply experience.

The Center's mission and functions have not been substantially changed, but command channels have been shortened, as a result of its transfer to the Defense Supply Agency. Instead of reporting through the Quartermaster General and the Deputy Chief of Staff for Logistics, the commander of the Center reports directly to DSA headquarters.

The Military General Supply Agency was established at the Richmond Quartermaster Depot on December 28, 1959. The Agency had only 1 year of operating experience under the single-manager system before DSA was established.

The Army retail functions, which were also handled by the single-manager agency, have been split off and assigned to the U.S. Army Support Command (Richmond).

The Defense General Supply Center commodity assignment includes a wide variety of items in 72 separate Federal supply classes. At the start of operations in 1959, these items totaled 107,000. Since then, 3,000 new items entered the system and 8,000 were eliminated, leaving 102,000 items.

Of that total, 31,519 items have been studied for over a year by both the Center and the General Services Administration. Only 4,523 actually had been transferred to GSA cognizance to the extent that supply operations had begun. Of the total, 2,659 items were to be supplied through GSA stores depots, and about 1,864 were accepted for Federal supply schedules.

The Center handled fiscal year 1962 procurement of $119,389,000, and sales of $105,186,000. It managed inventories valued at $130 million.

[16] Defense Petroleum Supply Center Quarterly Report, Mar. 31, 1962, p. 4.
[17] See Center response to subcommittee questions, hearings, pp. 367–394. Some figures are taken from the Center's quarterly single-manager assignment report for the fourth quarter, 1962.

The operating cost of the Center for fiscal year 1963 is estimated at $21,066,000. The Center states that this will be the first year of operation in full support of all military services for the items assigned in the 72-class package. The operating cost for fiscal year 1961 was $6,923,000, and the planned figure for 1962 was $10,532,000.

The Center staff consisted of 63 military and 1,570 civilians at the end of fiscal year 1962.

In the general supplies area, 97 percent of the dollar volume of procurement is awarded on the basis of formal advertising, and the remaining 3 percent on the basis of negotiated contracts. The high percentage of advertised bidding includes awards made on set-asides for small business and labor surplus areas. Set-asides utilize the same procedures as formal advertising, but are reported as negotiated under the DOD procurement reporting system. In the second quarter of fiscal 1962, awards under the small business program averaged 65.6 percent of total dollar awards.

The Center buys other items for the military services either as a cross-servicing for another Center or under a single department-procurement assignment. In fiscal year 1962, the Center bought $9.2 million in supplies for the Medical Supply Center and for civil defense, and $37.2 million in service-managed items under single department procurement assignment programs.

INVENTORY CONTROL AND DISTRIBUTION SYSTEM

Prior to the establishment of the single manager, there were 39 inventory-control points managing general supplies in the military services. The Center does not have specific information on changes to these inventory-control points, but 32,000 items within the 72 Federal supply classes have been retained by the military services for management at their own inventory-control points.

The Army had 18 such inventory control points, but these will be reduced under the current Army reorganization.

The Air Force had six inventory-control points managing general supplies items. The Air Force has continued to process requisitions for single-managed items internally through these inventory-control points but plans to discontinue this practice and to have requisitions flow directly to the General Supply Center on or about October 1962. The Air Force retains management of 20,000 general supplies items which are not single-managed.

In the Navy, 13 inventory-control points manage general supply items. The Navy has maintained its retail functions for general supplies at the Military Industrial Supply Agency in Philadelphia. This function is now transferred to the new Fleet Material Support Office at Mechanicsburg. The Navy retains about 11,000 general supplies items which are not single-managed. Fleet Material Support Office will be the central point of contract with the Defense General Supply Center.

The Marine Corps has two inventory-control points, Albany, Ga., for the east coast and Barstow, Calif., for the west coast. Requirements and policy matters are determined at Marine Corps headquarters. The corps has only 340 general supplies items which are not single-managed.

The General Supply Agency assumed ownership of stocks at 68 storage locations. Fifty-three of these locations have been closed

out and five additional ones are in process of being closed out. At present the general supply distribution system is composed of nine permanent storage locations, seven of which are in the Army's general depot system, one is the Marine Corps depot at Barstow, and the last is the General Supply Center itself at Richmond. A 10th location, Griffiss Air Force Base at Rome, N.Y., is being temporarily used for the storage of photographic supplies. This location has the controlled temperature storage necessary for film and other photographic supplies.

In the course of its management of general supply stocks during calendar year 1961, the Center estimated a drawdown of long-supply stocks in the amount of $18 million. Many details of capitalization and retail stock levels were not settled at the time of the subcommittee hearings.

PROBLEMS OF OPERATIONS

This commodity area clearly is in need of simplification and standardization. The Center has been attempting to clean up the Federal supply classes at the same time that it negotiates with GSA to decide between GSA management, Defense General Supply Center management, or local procurement. As of May 1962, General MacLaughlin reported that 17 Federal supply classes had been subjected to catalog cleanup. In this process, there was a 62-percent reduction in items. He estimated that all 72 Federal supply classes would be subjected to catalog cleanup by January 1, 1963. This is not an easy job, but it has taken over 2 years simply to find out what is contained in the assigned supply categories in terms of real items. General MacLaughlin stated that part of the problem lay in the fact that not only were item descriptions and identifications inadequate, but no demand data existed on those items which had been decentralized for local procurement.[18] Without adequate data, no rational decision can be made on how an item should be handled, or whether it should be handled at all. With regard to the division of items, General MacLaughlin said that the Center wants GSA to take items for which it can give the DOD good support. He suggested, however, that GSA is looking for items that can go on to the Federal supply schedules.[19]

At present, the GSA has only 12,000 items in its depot system, but over 70,000 items included in Federal supply schedules, for a total of 82,000 items. This will more than double the number of GSA items. Obivously, items which simply can be placed on Federal supply schedules would not put an increased workload on GSA depot operations than other items would impose.

General supplies as a commodity area includes many common types of items, such as hand tools and administrative supplies. Nevertheless, it is subject to added pressures and workloads during a crisis such as the Berlin buildup. Apparently, the General Supply Center had trouble maintaining its workload under such pressures. This is a clear indication that the center has not yet achieved complete control of its supply area. During the second quarter of 1962, order-processing time at the Center was as long as 103 days. Many of these orders could not have received the kind of attention that military requisitioners should be able to expect, and which the Centers should

[18] Hearings, p. 172.
[19] Hearings, p. 170.

be able to provide. In an effort to relieve the pressures upon it, the Center has allowed local procurement on many small purchases under the level of $2,500, and possibly other types of procurements. The characteristic of this commodity area are such that many of these small dollar purchases probably should be consolidated for the benefits associated with larger volume procurement.

In summary, the management picture of the general supplies area is confused and unsettled. Not enough new data have been gathered, and not enough energy is being devoted to straghtening out the tangled management chains. There appear to be some improvements in inventory management, but control and efficiency of procurement, the prime goal of single management, is unsure.

The Defense Supply Agency should insure that the General Supply Center receives adequate guidance and support so that it may attain the same degree of efficiency as the "old line" agencies for the new technical areas.

Defense Industrial Supply Center [20]

The Defense Industrial Supply Center, Philadelphia, Pa., is commanded by Rear Adm. James S. Dietz, Supply Corps, U.S. Navy. Admiral Dietz has had extensive field and headquarters experience in supply and fiscal matters. He has been at Philadelphia since October 1961.

The former Military Industrial Supply Agency had only partially assumed its single-manager assignment upon transfer to DSA on April 1, 1962; thus it was already in the midst of change. Transfer to DSA meant, in this case, a change in emphasis and replanning and the severance of Navy retail functions.

Defense Industrial Supply Center formerly reported to the Bureau of Supplies and Accounts on business operations and to the district commandant for military command matters. It now reports directly to DSA.

The commodity area assigned to Defense Industrial Supply Center is large and complex. There are about 600,000 items in the assigned classes. Defense Industrial Supply Center actually will manage about 400,000 of them; 200,000 will be single-service items or otherwise remain under the management of the military departments.

The assigned items fall into Federal Supply Group 31 (bearings), Federal Supply Class 3940 (tackle blocks), Federal Supply Groups 40 (chair, rope, and fittings), 53 (hardware and abrasives—the biggest group), 80 (paints, brushes, and sealer), and 95 (metal bars, shapes, and sheets).

Almost 53,000 items in these classes have been offered to GSA for its support. As of July 31, 1962, GSA had accepted 822 for its depot stores system and 324 for Federal supply schedules; it had left 44,500 for local purchase, and was still reviewing some 7,000 items.

Defense Industrial Supply Center was experiencing some difficulties in sorting out its items. In the "coding" process, in which the Center gets military service response on the means of handling the items whether by central management, service management, or local procurement/GSA handling, it received 42,000 mixed item codings, or items on which the services disagreed. This area of disagreement

[20] See Center response to subcommittee questions, hearings, pp. 402–417.

was reduced to 21,000 items after Defense Industrial Supply Center informed the services of the conflicts. The process continues, subject to negotiation on each item.

PROCUREMENT AND INVENTORY

The Center planned $111,640,000 in procurement for fiscal year 1962, and was managing an inventory initially valued at $143 million. The Center had not taken over all the wholesale inventories by the end of the fiscal year. While it was purchasing for wholesale stock to support all three services, it had assumed inventory control and management in only part of the assigned groups and classes. The Center program called for reducing the inventory it had assumed by $23 million through drawdown and disposal of excess by the end of the fiscal year.

The depot and distribution system for industrial supplies consisted, in April 1962, of 24 activities. This has been the most decentralized of the commodity single manager operations. Each storage location has handled requisitions, stock records, and finances, reported stock is stored at 8 distribution depots and 16 direct support points. There are 20 Navy activities, including the direct support points, the Army Columbus General Depot, the Air Force's mobile air materiel area, and the Marine Corps Supply Center, Albany, Ga.

By October 1, 1962, this system will be tied together by a daily reporting system over the new integrated data communications network instituted by the Defense Communications Agency. Defense Industrial Supply Center will then receive daily transaction reports from all 24 field activities on sales and inventory.

The estimated operating cost of the Center for fiscal year 1962, with only partial assumption of its assignment, was $9,500,000. The estimated cost for fiscal year 1963 is $16,900,000. This estimate covers costs for phasing up to full assigned operations, and includes $600,000 reimbursement to the Navy for administrative support services previously furnished without cost.

At the time of transfer to DSA, the Center staff consisted of 40 military officers, 2 enlisted men, and 1,404 civilians. Defense Industrial Supply Center plans to have a staff of 2,289 by the end of fiscal year 1963 when it assumes full management of its assignment.

IMPACT OF DSA

In House Report 2042, the committee expressed its concern over the waste motion and unnecessary reshufflings that surrounded the Navy's effort to staff the General Stores Supply Office at Philadelphia in the hopes of getting the general supply single manager assignment.[21]

In June 1959, the Navy transferred its handtool procurement office from the Navy Purchasing Office in Washington to General Stores Supply Office, Philadelphia. In the process, it lost experienced personnel who did not desire to transfer.

In November 1959, the general supplies assignment was made to the Army. The Army delegated the job to Richmond. It hired some of the former Navy handtool procurement personnel, since the Army had not bought handtools at Richmond.

[21] H. Rept. 2042, pp. 7–8.

The Navy was given the industrial supplies assignment instead of the general supplies assignment it wanted. Sticking to its guns, it organized the Military Industrial Supply Agency within the General Stores Supply Office, gave the General Stores Supply Office commander another "hat" to wear as head of Military Industrial Supply Agency, and decided to manage Navy retail functions for both general supplies and industrial supplies at General Stores Supply Office. General Stores Supply Office thus acted as a single Navy contact point with the general supply single manager agency at Richmond when it was set up.

In August 1960, the charter for Military Industrial Supply Agency finally was agreed upon by the services and promulgated. The assignment had been expanded in May with the addition of FS groups 31, 40, and FS class 3940.

On October 1, 1960, the first operations under the single manager assignment were assumed for paint (FSG 80). At the end of November, General Stores Supply Office was disestablished and all its functions transferred over to Military Industrial Supply Agency. The Navy thereby had an integrated retail and wholesale agency.

By May 1961, Military Industrial Supply Agency completed the transfer to other Navy inventory control points of items not part of either the industrial or the general supply areas.

On July 1, 1961, the Army, which had been having its own troubles, at last took over the wholesale general supply function from Navy, leaving Military Industrial Supply Agency, the industrial single manager, with Navy retail supply functions for both industrial and general supply items.

With the decision to establish DSA, the retail supply functions had to move (for the second time, in the case of general supplies). They were transferred to the Navy's Fleet Materiel Office at Mechanicsburg, Pa., on April 1, 1962, when Military Industrial Supply Agency became Defense Industrial Supply Center. The separation required the detachment of 4 Navy officers and 119 personnel spaces.

In view of this history, it would not be surprising to find low morale and relatively poor performance at Defense Industrial Supply Center. The changes have been continuous for 3 years. In point of fact, the effectiveness at Defense Industrial Supply Center in terms of ability to fill orders from stock is only 80 percent or lower. The Center reports that this is a measure of the unbalanced item content of inventories being capitalized and absorbed. It is true that such a condition has characterized commodity areas in process of conversion to single manager control.

Indicative of Defense Industrial Supply Center's problems, however, may be its resort to machine processing techniques for stock control. It has used automatic data processing techniques for more than 50 percent of its requisitions since November 1961, "reducing substantially the human effort required in the stock control department." [22] More conversion to ADP is planned.

In summary, this is a Center with a big and complex mission. It is highly decentralized in the field, with many stock control points. It has had problems in readjusting to industrial supplies and handing over general supplies to Richmond. It does not appear reasonable to

[22] Hearings, p. 412.

expect major savings to come out of this Center until it gets control of its commodity area.

Defense Construction Supply Center [23]

The Defense Construction Supply Center, Columbus, Ohio, is commanded by Brig. Gen. Philip Kromer, U.S. Army. Its inclusion in DSA will, as in the case of other component activities, simplify command and reporting channels.

The single manager agency reported to the Secretary of the Army through the Chief of Engineers and the Deputy Chief of Staff for Logistics. The Defense Construction Supply Center reports directly to the DSA Director.

Construction supplies was one of the last two areas to be designated for single manager operations.[24] Through 1960 and 1961, the Army proceeded to plan for the establishment of a Military Construction Supply Agency to be operated integrally with the Army Engineer Maintenance Center. The Chief of Engineers had handled construction supplies for the Army through two offices—the Engineer Supply Office at St. Louis, Mo., and the Engineer Maintenance Center at Columbus, located with Columbus General Depot. A choice had to be made between these two offices for a single manager base. The Army planned to delegate many retail-level Army functions to the combined office, thus consolidating a wider range of functions than the old line single manager agencies were permitted.

When the decision was made in August 1961 to form the Defense Supply Agency and assign construction supplies to its management, it became necessary to separate these two commands which had been laboriously joined. The Center reported that as of the end of April 1962, the separation had been accomplished. Until that time, the Center had undertaken the full management only of the three Federal supply classes of lumber, millwork, and plywood. Even this limited assumption of responsibility had required the transfer of this function from the former Engineer Lumber Control Office at St. Louis.

The present schedule calls for the assumption by the center of defensewide supply management responsibility for 18 more Federal supply classes, for the Army portion of the remaining 17 classes in the 38-class package assigned to the Center, and for almost all catalog and standardization responsibilities, by August 1, 1962. The final transfer of responsibility for Navy and Air Force supply in the last 17 classes is to be completed by November 1, 1962, at which time the Center will be fully operational.

ITEMS ASSIGNED

The 38-class construction supply commodity area consists of about 246,000 items of equipment and parts. Items to be managed include diesel engines, mining and rock drilling equipment, truck and tractor attachments, firefighting equipment, winches, hoists, cranes, derricks, compressors, power and hand pumps, plumbing and building supplies and fixtures, and portable buildings. The Center will not manage

[23] See Center response to subcommittee questions, hearings, pp. 418–433.

[24] The decision to set up single manager agencies for construction and automotive supplies was announced at the April 1960 hearings of the Military Operations Subcommittee. See 1960 supply management hearings, pp. 49–50, and H. Rept. 2042, 86th Cong., 2d sess., p. 2.

major end items or pieces of engineering equipment such as graders, tractors, or rock crushers.

Other changes have been made in the course of setting up this Center. These were due to the attempted reassortment of item responsibility among the Army supply centers. The Automotive Supply Agency had planned to transfer 59,000 items to the Construction Supply Center. These were automotive-type items, but they are associated with construction-type equipment. These 59,000 items now have been returned to the Automotive Supply Center for management.

In the construction classes, 69,000 items have been decentralized for local procurement, and 51,000 items have been offered to the General Services Administration for its management. The latter items still are under review in GSA. The Center states that many items cataloged in these classes have not been procured or issued for a year or more and which may be in fact outmoded or unnecessary (so-called phantom items). The Center has yet to clean up its catalog.

OPERATING COSTS AND PERSONNEL

The annual operating costs for the second half of fiscal year 1962 were estimated at $6,625,128. The fiscal year 1963 operating costs were estimated at $23,144,567, which includes not only the personnel costs but the cost of support and facilities to be furnished on a reimbursable basis by the Engineer Maintenance Center.

The personnel of the Defense Construction Supply Center consists of 33 military officers (16 Army, 8 Navy, 6 Air Force and 3 Marine Corps) and 1,763 civilians. Of the civilians, 46 are professional, 689 are technical, 184 are administrative, 806 are clerical and 38 are blue-collar trades and crafts workers.

DISTRIBUTION SYSTEM

With regard to the inventory control and distribution centers required for construction supplies, the Center and the military services have planned an extensive simplification and streamlining program. Subject to the requirements of the unified DSA depot system, the total of 52 separate inventory managers for construction supplies within the military services is to be reduced to 5. What are now 77 separate storage locations will be consolidated into 8 distribution depots and 7 direct supply depots. This consolidation program stems from plans and efforts of the Army Engineers and the Single Manager Agency.

In summary, the construction supply picture is hopeful, but the job is scarcely underway. The revision of plans questionably has set back the real job of getting management control of the commodity. With the plans for Center headquarters, distribution system, and organization finally in hand, the green light must be given to consolidating procurement, inventory, and related services.

There is hope in the fact that with DSA as the management agency, construction supplies can be brought under control with assistance from other DSA units such as standardization, utilization, and distribution system elements. Those charged with better management of construction supplies will be working in a context broader than that of the Army alone. They will be part of an agency whose mission is the improvement of all common supply arrangements.

Defense Automotive Supply Center [25]

The Defense Automotive Supply center, Detroit, Mich., was developed under the command of Brig. Gen. John F. Thorlin, U.S. Army. General Thorlin has been commander of the Army Ordnance Tank-Automotive Command since June 1, 1960. The Center was established in lieu of the Army's Military Automotive Supply Agency on July 1, 1962, under command of Capt. V. O. Bertelson, U.S. Navy, and is to begin operations of procurement and supply management on October 1, 1962. By July 1, 1963, it is expected to take over and manage 150,000 line items of automotive spare parts.

Considerable changes were required by the conversion of the Automotive Agency to a DSA supply center. A separate headquarters and commander has been established. Like the other Centers, the chain of command above the Defense Automotive Supply Center will be simplified. Instead of the single-manager type agency command line running up through the Army Chief of Ordnance and the Army Deputy Chief of Staff for Logistics, the Defense Automotive Supply Center reports directly to the Defense Supply Agency.

Like the Construction Supply Center, the Automotive Supply Center has been affected by the new-made distinctions and operational concepts of the new Supply Agency. The automotive assignment was made to the Secretary of the Army in April 1960. After much planning and preparatory work, the Agency was given a charter in the form of Department of Defense Directive No. 5160.35, dated April 13, 1961. One year had passed. It is now 2 years since the assignment, and among the developments which have supervened are the comprehensive reorganization of the Army and Army supply, and the establishment of the Defense Supply Agency.

The first plan developed by the Army to carry out the mission in the April 1961 charter was to incorporate the Single Manager Operating Agency in the Ordnance Tank-Automotive Command organization at Detroit. The Agency was to manage only 25,000 line items of common-use automotive spare parts in operations that would have been completely integrated with those of Ordnance Tank-Automotive Command. The creation of the Military Automotive Supply Agency was to be accomplished at no additional cost, with the only added functions being those of consolidating catalog preparation; control of Navy, Marine Corps, and Air Force inventories; and administration of storage space and administrative support for the consolidated single manager inventories. Ordnance Tank-Automotive Command already had the single department procurement assignment for vehicles and spare parts, although heavy reliance was placed upon the commercial distribution systems for automotive parts in the continental United States. It was hoped that with the integrated Ordnance Tank-Automotive Command-Military Automotive Supply Agency structure, personnel and various support services could be used almost interchangeably by these two Army operations housed at a single location.

The staffing for the new Center had not been worked out by May 1962. Only 10 military and 335 civilian spaces had been allocated for the Ordnance Tank-Automotive Command-integrated Military Automotive Supply Agency arrangement.

[25] See the Center response to subcommittee questions, hearings, pp. 434–441.

ADDITIONAL COSTS

The plan based on no additional cost for the integrated agency idea had run aground. The May estimate was that the added cost to Ordnance Tank-Automotive Command for fiscal year 1962 would be $750,000. However, this cost was incurred largely as a result of added personnel needed for the last half of the fiscal year (January to June 1962), after the decision on DSA and after the requirements of the new Automotive Center were developed.

The rough estimate for fiscal year 1963 operating cost is $5,450,000, plus the cost of support services shared with Ordnance Tank-Automotive Command of about $1,050,000. Ordnance Tank-Automotive Command and Defense Automotive Supply Center will share common support services, such as an automatic data processing center, but under the new plan, the support activities of the two commands must be separated, and the Center must reimburse Ordnance Tank-Automotive Command for the services it provides to the Center.

Some 59,000 items required for construction-type equipment will be retained by the Defense Automotive Supply Center instead of being transferred to the Defense Construction Supply Center, and similarly a large number of items related to materials handling equipment (e.g., fork-lift trucks, warehouse tugs, and trucks) will be retained by Defense Automotive Supply Center instead of being transferred to the Defense General Supply Center at Richmond. In addition, the decision made by the Ordnance Tank-Automotive Command integrated Military Automotive Supply Agency to decentralize many items for local procurement will be reconsidered by the Defense Automotive Supply Center. The result of these changes are that instead of taking on 25,000 items, Defense Automotive Supply Center will begin managing between 30,000 and 40,000 items and build up to 150,000 items by July 1, 1963.

Ordnance Tank-Automotive Command-managed items were reduced from 100,000 to 75,000 items during fiscal year 1962, but some of this reduction has been from central management to local procurement, the area which the Defense Automotive Supply Center may have to reexamine. The Defense Automotive Supply Center's predecessors have been able to eliminate 11,000 inactive Federal stock numbers from its assigned catalog classes, but further simplification and standardization activities will be required of the new Agency.

With regard to the inventory control and distribution system for automotive supplies, the Center will be in somewhat better shape than was the case with early single manager operations. The Center will work with the four retail inventory control points already established:

Air Force—2709th Air Force Vehicle Control Group, Memphis, Tenn.

Navy—Yards and Docks Supply Office, Port Hueneme, Calif.

Marine Corps—Marine Corps Supply Activity, Philadelphia, Pa.

Army—Ordnance Tank-Automotive Command, Detroit, Mich.

The Army has reduced inventory in this area from $861 million to $774 million during fiscal years 1961 and 1962, and at the same time has reduced its ordnance distribution system from 10 to 6 depots.

In summary, the original Army program for consolidation and improvement of automotive supplies management has been overturned. The plan was meritorious in its aim of minimizing costs at Ordnance

Tank-Automotive Command while permitting expansion of management capacity to take place in other agencies that were expanding in any case. As first undertaken, the plan would have realined commodity groupings along functional lines, rather than along industry-supplier lines. It collided with DSA commodity management concepts, and possibly more total personnel are required for the final solution.

Although Defense Automotive Supply Center had to begin again with its planning and organization, improvements have been made in catalog cleanup, in the distribution system, and in inventory reduction in the meantime. DASC must get to work and finish these tasks.

Defense Electronics Supply Center [26]

The Defense Electronics Supply Center, Dayton, Ohio, is commanded by Brig. Gen. William W. Veal, U.S. Air Force. This Center is the first and only of the DSA supply centers which will not have gone through the process either of operating or attempting to operate as a commodity single manager.

The Defense Electronics Supply Center is, furthermore, the first of these centralized operations to be based upon an Air Force capability. It is taking over the former facilities and organization of Gentile Air Force Station and Depot at Dayton. That station has managed some 400,000 items of electronic and electrical parts for the Air Force. On July 1, 1962, the new Center began operations by taking over and running this part of the electronic supply system.

THE ELECTRONICS STUDY

The most important feature of this Center, however, is the nature of the commodity area that has been assigned to it. The studies that led up to the formation of this Center and the long course of decisions that preceded its establishment illustrate the technical complexity of this area.

The General Accounting Office made a study lasting over a year which dealt with electronic equipment as well as parts.[27] Concurrently, but extending over a longer period of time, the analysis staff of the former Armed Forces Supply Support Center, in conjunction with the military services, studied the statistics of management, distribution, and use characteristics of this area in detail.

The Armed Forces Supply Center study ran into some five volumes of several thousand pages.

The GAO report concluded that Federal Supply Group 58 (communications equipment) should be included with Federal Supply Group 59 (electrical and electronic equipment components) under one single manager. The Armed Forces Supply Support Center concluded that Federal Supply Group 58 should not be included, since it consists of end items of equipment intimately associated with major equipments and weapon systems of the three services.

[26] See Center response to subcommittee questions, Hearings, pp. 395–401, and General Veal's testimony, hearings, pp. 157–164.

[27] The GAO report on the results of this study was included in the 1960 hearings of the Military Operations Subcommittee. See "Military Supply Management (Progress in Single Management)," hearings before a subcommittee of the Committee on Government Operations, House of Representatives, 86th Cong., 2d sess., Apr. 25 and 26, 1960, app. 13, pp. 301–375.

Secretary McNamara announced in August 1961 that the Electronics Center would include Federal Supply Group 59 and Federal Supply Class 6145 (wire), as recommended by the Armed Forces Supply Support Center. As General Veal made clear in his testimony, the Electronic Supply Center must involve itself in the supply of 700,000 items and at the same time insure that the supply support furnished to the military services is uninterrupted. The total wholesale inventory in this assigned area will approximate $1 billion. While it is true that this inventory would be more than double with the addition of Federal Supply Group 58 (communications equipment), the factor of augmented size is not controlling in this case.

The Armed Forces Supply Support Center report documented the electronic supply system of the four services in separate volumes. It brought these analyses of the services systems together into one single study, which, while not exhaustive, illustrates most of the problems involved in attempting to centralize or consolidate the managment of electronics items. The analysis of the problem showed that a single manager agency within one of the military departments would not provide a solution to the problems of managing a technical area such as electronics. It recommended the establishment of what it called a Defense Electronics Management Center under a military commander, and separate from the military services.

The quality of this technical study shaped all of the interservice discussions and debate that took place since it was completed. The study model of the Defense Electronics Center set the precedent for all the supply centers of the DSA. It also became the model for the DSA itself. No more satisfactory administrative answer to the kinds of questions raised by the technical problems of the new commodity areas was found, and this form of solution prevailed.

In a briefing at the Armed Forces Supply Center in April 1961, the subcommittee was informed that the electronics area was indeed critical. If electronics were added to the other areas already under single managership, more than half of the items in the DOD supply system would be under a single supply manager operating on behalf of all the military services on the wholesale level. A Center analyst said to the subcommittee: "The E & E study is a commitment study. If I can emphasize that, this is a commitment study and when the DOD and the services decide on this study, we have decided our course of action toward a common supply system or not." [28]

Electronics, therefore, was the key to common supply. And the Armed Forces Supply Support Center study opened the door. Probably there is no other single example of a competent technical study which has resulted in such broad and far-reaching results. It is notable that the study was done inhouse by military and civilian personnel with many years of service in the military departments and in the DOD. The study also provides another unique feature of the new electronics agency. Its commodity will be the first that has been studied in careful detail before a single agency organization is dropped on top of it and expected to operate.

[28] "Defense Cataloging and Standardization Programs," hearings before a subcommittee of the Committee on Government Operations, House of Representatives, 87th Cong., 1st sess., Apr. 14, 1961, p. 85.

COMMODITY GROWTH AND COMPLEXITIES

Other characteristics of the electronics area must be given special attention. First, General Veal and others underlined its dynamic nature. New parts are being introduced at the rate of 20 percent per year. That is, there are now about 770,000 items in the assigned Federal supply group and class. The electronics center expects about 567,000 items to be suitable for central management by the Center. General McNamara, the DSA Director, cited figures showing that out of an item growth of 294,000 in the groups assigned for integrated management over the past 27 months, 199,000 items (over two-thirds of this growth) occurred in the electronics classes. The Center will have a very difficult time keeping up with the growth of new items and at the same time maintaining efficient supply support in all the items under its cognizance.

General Veal also accented two somewhat related problems. In the electronics area most of the items must be carried on the basis of "insurance." Many items will not be ordered more than once in a whole year. But they must be available at that time, when they are called for, because of the consequences of the failure of a particular piece of equipment of which they are a part.

Second, the prediction of electronic item demand is complex and frequently unreliable. Electronics parts fail; they do not wear out. And the failure of one part, any part in the equipment, means that the whole equipment will not work.

FIRST USE OF AIR FORCE CAPABILITY IN COMMON SUPPLY

As a base for the electronics assignment, the Secretary of Defense had to choose between the Army's signal supply agency at Philadelphia, Pa., the Navy's electronics supply office at Great Lakes, Ill., and the Air Force's Dayton depot. General Veal testified that in placing the Electronic Supply Center on top of the going Air Force depot at Dayton, he was getting and overcoming a number of transitional problems. His program called for 4,448 personnel to begin operations on July 1, and at the beginning of May he had 4,109 personnel. The management of certain classes of items was being transferred in and out of the Dayton depot in a shuffle of the Air Force retail functions. The Armed Services Electro Standards Agency was being transferred from Fort Monmouth, N. J., to Dayton, and part of the Electronic Production Resources Agency was being abolished by the Center.

The subcommittee in its 1959 and 1960 reports noted that the decision to establish a single procurement assignment for electronic tubes initially had been opposed by the Air Force. However, the assignment later was made and given to the Dayton Air Force Depot to carry out. General Veal explained that electronic tubes would constitute a major part of the procurement of the new Center, and that while much of the procurement savings already had been achieved by this centralized procurement, the experience of handling this assignment would be of benefit to the new Center. The major new savings which the Center can achieve lie in reducing the quantity of "insurance" stockage for many thousands of items and thereby reducing the overall system cost of this type of supply.

The estimated annual operating cost for the Electronics Center varies between $41,771,000 computed by DSA headquarters and a later figure of $45,998,000 developed by the Defense Electronics Supply Center planning staff. The added cost was due to increased personnel estimates. The breakdown of the lower budget estimate included $32 million for personnel, $5.4 million for support services, and $2.6 million for supplies and equipment.

In summary, it may be said that the electronics area is new, costly, demanding, and challenging. It cannot fail the demands put upon it to provide maximum efficiency, because no one is going to let it fail. As it was the key to a single agency, it may be the key to raising the incentive of all DSA components to exert maximum effort. The committee will be interested in seeing the progress of this new Electronics Center.

Defense Traffic Management Service [29]

The Defense Traffic Management Service, Washington, D.C., is commanded by Maj. Gen. I. Sewell Morris, U.S. Army. General Morris has headed this Agency since March 1, 1958.

The Service is another exception to the basic DSA structure of commodity management offices. It is a service function—managing commercial land, water, and air transportation for military needs in the continental United States. In organization and mission it is virtually the same as the former Military Traffic Management Agency, a single-manager operating agency transferred from the Department of the Army.

In the DSA reorganization, traffic management is separated from the operational activities of the Military Air Transport Service and Military Sea Transport Service, as it was under Army single management. DTMS works closely with MATS and MSTS, however. It cooperates closely with MATS in the enforcement of compliance with standards of performance for commercially contracted military air travel.

FUNCTIONS OF DTMS

Unlike the air and sea services which have operating fleets of aircraft and ships, the Defense Traffic Management Service does not own an inventory of vehicles or transportation equipment. In the past, it has managed the repair and maintenance of the military-owned railroad rolling stock. This rolling stock remains with the Army and Navy. The management fund operations, under which income from rentals of the rolling stock to the railroads was applied to rehabilitation and repair, have been dropped. Appropriated DSA funds will be used for this repair and maintenance.

Other than buying office material for its own use, the Defense Traffic Management Service does not perform an actual procurement function. DTMS arranges with air, land, and water carriers for the transportation of personnel and routes freight for the military services. Such arrangements are made in the form of agreements with indefinite quantities. It sets standards of service, including provisions for a choice of rates, for such carriage for all military users or customers. The military shippers actually procure transportation service by

[29] See Center response to subcommittee questions, hearings, pp. 444–463.

issuing the procurement documents, usually Government bills of lading and transportation requests, citing appropriated fund accounts of the military departments.

Under the Federal Property and Administrative Services Act of 1949, traffic management could fall under the leadership or administration of the General Services Administration. The Department of Defense has, however, exempted itself from such control under the provisions of that act and operates independently of the GSA in this field.[30]

The Defense Traffic Management Service works closely with transportation regulatory agencies in the performance of its functions. In this connection, the only new assignment which has been made to the Service since the establishment of the Defense Supply Agency is the responsibility for representing the Department of Defense before transportation regulatory bodies. This delegation was made by the General Counsel of the Department of Defense to the Defense Supply Agency and redesignated by the DSA Counsel to the Defense Traffic Management Service. The assignment was made without allowance for additional personnel to perform the duties.

There were two additions made to the mission of the former Military Traffic Management Agency before its absorption into DSA. In 1960, the mission was increased to include responsibility for through-bill-of-lading movement of uncrated household goods. At the same time, the Agency was given an expanded mission for war planning of military transportation requirements. The planning was intended to include a more realistic comparison with the resources of the U.S. transportation industries. The latter task was undertaken in response to the hearings and report of a special committee of the Armed Services Committee under the chairmanship of Congressman Kilday.[31]

Another internal organizational change was put into effect in May 1961 by General Morris. Before that time, both freight and passenger traffic functions were the responsibility of a division of traffic which also performed other functions. These two functions were separated and assigned to two new divisions. The resulting organization, which was carried over into the Defense Supply Agency, was intended to give added emphasis and control for freight and passenger operations to the two different kinds of traffic.

STAFF AND COSTS

The staff of the Defense Traffic Management Service consists of 84 military and 918 civilian personnel for a total of 1,002 authorized spaces. It was estimated that this staff, which has remained constant for several years, replaced about 1,300 personnel performing similar functions when the single-manager agency was first established in the Army. The staff has increased by a total of 33 since the beginning of 1960.

The annual operating costs of the Service was, in fiscal year 1960, $6,400,000; in fiscal year 1961, $7,200,000; and in fiscal year 1962, $7,500,000.

[30] Hearings, p. 46.

[31] "Adequacy of Transportation Systems in Support of the National Defense Effort in Event of Mobilization," hearings before a subcommittee of the Committee on Armed Services under authority of H. Res. 19, H.R. 86th Cong., 1st sess., July 15–Aug. 5, 1959, report Oct. 10, 1959, p. XVI.

The service's military staff has consisted largely of Army officers, due to its position in the Army Transportation Corps. A new joint staffing policy has been planned to increase the participation of the other services. As of April 1962 there were 52 Army, 16 Navy, 1 Marine Corps, and 16 Air Force officers serving as heads of the organizational units. The new plan calls for manning by two general or flag officers of any service, 35 Army, 24 Navy and Marine Corps, and 23 Air Force officers.

The cost of commercial transportation administered by the Defense Traffic Management Service totaled an estimated $570 million in fiscal year 1960, and about $500 million in fiscal year 1961. The agency estimated savings of $42 million attributable to its routing and management efforts for that year, and similarly computed $40.3 million in savings for fiscal year 1961.

The Traffic Management Service attempts to achieve its savings largely through analyses of traffic movements, by studies or automatic data processing system reports and analyses.

VII. DEPOT DISTRIBUTION SYSTEM

A major objective of Defense Supply Agency which has not yet been completely worked out is the integrated depot distribution system. Each of the commodity single managers, as they were set up within the military services, undertook the major task of simplifying the storage and distribution of the commodity, and they sought to utilize in the most efficient way the best facilities within all three military departments. Each manager undertook to reduce his system from as many as 50 or 60 distribution and storage locations to a manageable 10 or 12. They wanted, however, to avoid unnecessary transportation costs, and in particular, to avoid the transfer of stocks from one depot to another. This could be done most easily by phasing out the smaller stock locations and using the depots where the greatest quantities of the commodity were stored. The result was a streamlined system for each commodity, but a disjointed structure for one common supply agency such as the DSA.

After DSA's establishment, its plans directorate was assigned to make a study of the distribution systems in existence. The study was completed, and the facts were provided for Secretary of Defense decision.

The commodities assigned to DSA are now distributed by more than 30 depots within the military departments. (See exhibit 1.) In a larger version of the type of consolidation attempted by each single manager, there must be a plan to concentrate these common commodities into fewer depots. The aim is to insure maximum effectiveness, close management, and continuous scrutiny, and to achieve major reductions in operating costs.

These objectives will necessarily compel earlier and more specific decisions on the future of smaller depots. It must be expected that decisions on the DSA supply distribution system will contribute to the closure of additional military depots or facilities, when DSA moves out and the military department can no longer justify continued operation of the location.

A comparison of the depot locations (exhibit 1) with storage area requirements (exhibit 2) illustrates some of the problems.

EXHIBIT 1

COMPOSITE NETWORK OF DISTRIBUTION FACILITIES FOR DSA COMMODITIES

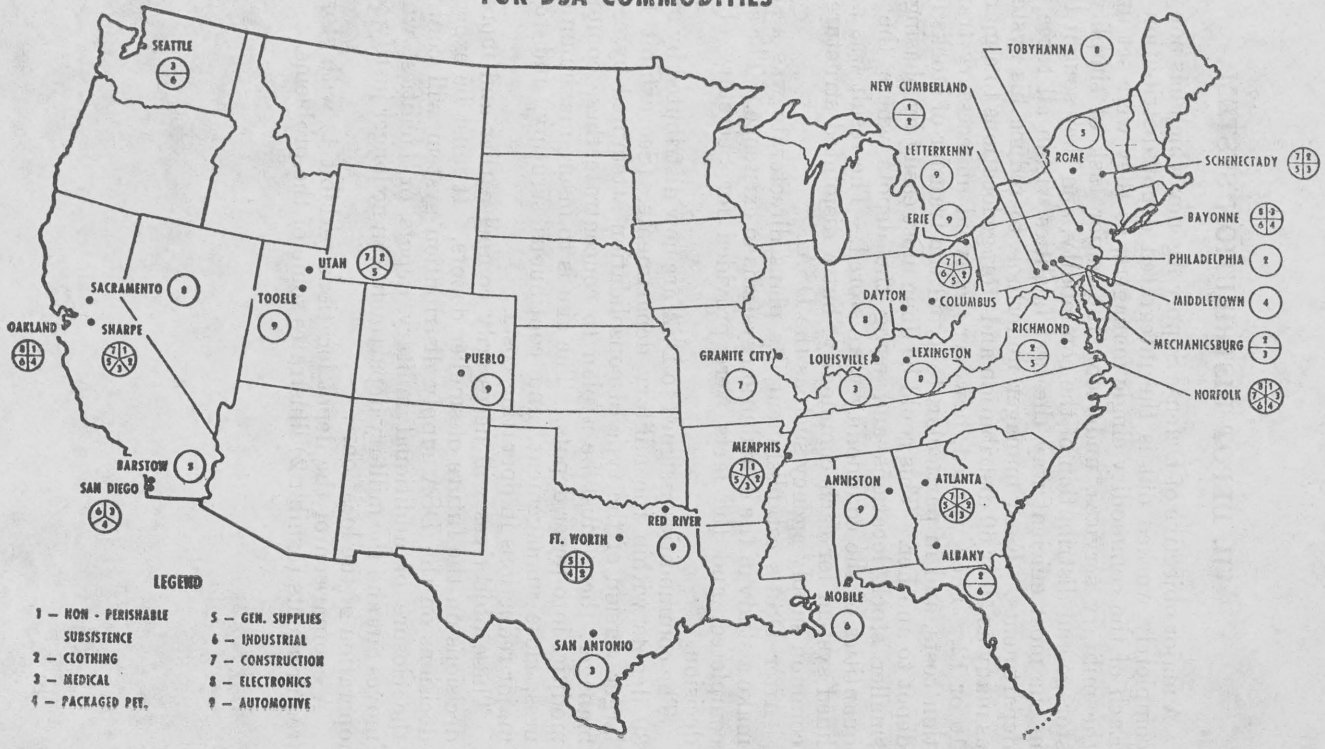

EXHIBIT 2

Storage space utilization at 32 depots visited as of Dec. 31, 1961

[Thousands of square feet]

Depot	Commodities (See Legend)	Maximum desired occupancy	DSA
Albany	2, 6	1,782	129
Anniston	9	1,433	25
Atlanta	1, 2, 3, 4, 5, 7	2,845	1,363
Barstow	5	1,316	110
Bayonne	3, 4, 6, 8	1,312	296
Columbus	1, 2, 5, 6, 7	2,810	1,234
Dayton	8	422	245
Erie	9	1,219	50
Fort Worth	1, 2, 4, 5	1,287	691
Granite City	7	1,214	88
Letterkenny	9	1,271	14
Lexington	8	728	140
Mechanicsburg	2	4,054	879
Memphis	1, 2, 3, 5, 7	2,858	1,235
Middletown	4	1,288	157
Mobile	6	1,034	957
New Cumberland	1, 2	2,386	1,375
Norfolk	1, 3, 4. 6, 7, 8	4,196	1,181
Oakland	1, 4, 6, 8	5,139	838
Philadelphia	2	973	705
Pueblo	9	1,403	16
Red River	9	1,268	17
Richmond	2, 5	2,751	1,191
Sacramento	3	1,096	126
San Antonio	3	3,613	73
San Diego	3, 4, 6	692	96
Schenectady	2, 3, 5, 7	3,330	1,101
Seattle	3, 6	737	100
Sharpe	1, 2, 3, 5, 7	3,421	1,542
Tobyhanna	8	1,136	239
Tooele	9	1,224	
Utah	2, 5, 7	3,249	936
Total		63,487	17,149

LEGEND

1. Nonperishable. Subsistence.
2. Clothing.
3. Medical.
4. Packaged petroleum.
5. General supplies.
6. Industrial.
7. Construction.
8. Electronics.
9. Automotive.

In 18 depot locations a single commodity assigned to DSA is stored. Where the proportion of DSA storage use is large, and the size of the depot itself is small, a closure may be necessary if the owning military department cannot use it for other purposes. Where the DSA use is small, closure possibility is less.

At the larger depots, different problems arise. DSA stores four or more of its assigned commodities at nine depots. Where these are large general depots, the DSA share may not be predominant, even though it represents a large portion of the DSA distribution system. These factors raise issues of command.

Where it is the dominant user of a depot for distribution and storage, DSA would like to have command over the depot. Its reason for having command is to be able to decide on the use of the facilities and support activities at the depot in the most economical way.

The question of command also relates to the ability of a depot commander to plan and carry out new repairs, expansion, or construction at his facility in consonance with the missions and functions he performs in the supply system. This aspect of the command problem was resolved in part by the congressional action taken on the Military Construction Authorization Act for fiscal year 1963.

The Department of Defense, in its authorization request, asked that authority be given to the Secretary of Defense to construct facilities for defense agencies. The House Armed Services Committee objected to the language of this proposal on the grounds that it would give the Secretary of Defense "operating functions" beyond his direction, control, and policymaking functions. The House committee deleted the consolidated request for defense agencies and inserted the authority under the military departmental sections of the bill.

The Senate did not concur in the House action. It was of the opinion that the Defense Department request reflected good management and good budget practices, and it approved the authorization in the form proposed by the Department.

In conference, the House conferees asserted that the departmental language approved by the Senate would allow the Secretary of Defense to engage directly in construction and maintenance of real property facilities and insisted on language which would specifically preclude the Department of Defense from engaging in such an "operating function." The conference, therefore, adopted compromise language which would: (*a*) Provide that all construction, maintenance, and repair of real property facilities will be accomplished "by or through military departments"; (*b*) prevent defense agencies from including in their activities any "operational function" involving construction, repair, and maintenance; and (*c*) require that primary "responsibility" for all real property facilities be in the military departments.

A new section 610 was incorporated into the act which required that the activities in question be financed from appropriations for military functions of the Department of Defense, and that any construction authorized in the bill would be accomplished "by or through" military departments designated by the Secretary of Defense. Subsection (b) of section 610 required that real property facilities "under the jurisdiction of the Department of Defense" which are used by defense activities and agencies outside the military departments—this would include DSA—shall be "under the jurisdiction of a military department" designated by the Secretary of Defense.[1]

Since this section relates only to real property aspects of depots and storage facilities which may be affected by the solution of the DSA distribution system problem, it does not provide a full and clear answer. Moreover, it introduces concepts which are undefined either there or elsewhere in the laws of the United States. Title is held for such installations by the U.S. Government and not by one of the military departments, and "jurisdiction" is a very complex bundle of legal problems, involving such matters as criminal jurisdiction, civil process jurisdiction, police jurisdiction, conservation jurisdiction, etc.

Nevertheless, the assorted problems raised by this congressional action and the inevitable questions of dividing functional planning, direction, and control among commanders operating for different purposes and under different systems at the same location has made it certain that no uniform arrangement can be made for the command authority of either DSA supply systems commanders or DSA commodity supply center commanders.

[1] See statement of managers on the part of the House, H. Rept. No. 1977, conference report to accompany H.R. 11131, 87th Cong., 2d sess., July 13, 1962, pp. 25–26.

Oversea Operations

The jurisdiction of the Defense Supply Agency does not go beyond the 48 States in the continental United States. The Defense Supply Agency is permitted to establish procedures for direct support of field and operating functions in Alaska, Hawaii, and areas outside of the continental United States when mutually agreed upon by DSA and one of the military services. Under this provision of its charter, the DSA is working out arrangements with the Air Force for direct support of oversea units because the Air Force does not have the kind of oversea supply system that the Army and Navy have.

Deputy Secretary Gilpatric testified that the DOD does not wish to put too many burdens of this kind on DSA until it gets better management control of the assignments it now has. But if and when the extension of DSA operations to oversea areas is considered desirable, the charter permits specific extensions by the Secretary of Defense. Deputy Secretary Gilpatric said that the Joint Chiefs of Staff would be consulted before any such moves were made.[2]

Admiral Lyle, DSA's Deputy Director, made it clear that the direct support which is being furnished to the Air Force consists of filling requisitions for Air Force units in the continental depot system and shipping them directly overseas. It does not involve positioning stock or operating depots in oversea areas.[3]

[2] Hearings, pp. 63–64.
[3] Ibid., pp. 151–152.

VIII. OTHER SUPPLY SYSTEM CHANGES

The organization and buildup of DSA are attended by changes in Army, Navy, and Air Force supply systems. The Army has established a new Army Materiel Command.

The Navy has formed a new Fleet Materiel Support Office, referred to several times in this report, to centralize its fleet support operations.

The Air Force earlier had reconstituted its Air Materiel Command as the Air Force Logistics Command, redistributing procurement functions and giving a broad sector of research and development responsibilities to the Air Force Systems Command which succeeded the Air Research and Development Command.[1] The logistics command role thus became more closely akin to the concept of supply support, rather than extending upward into the function of assisting in the development of materiel to be carried in the logistics system.

MILSTRIP

Apart from organizational and mission changes, procedural improvements have been made on a defensewide basis which will undoubtedly affect future organization and management. One of these is MILSTRIP.

MILSTRIP is a short title for military standard requisitioning and issue procedures. Effective July 1, 1962, these procedures will be used by all military installations for requisitioning stocked items from all military departments, single manager, and General Services Administration supply distribution systems. MILSTRIP is composed of three essential elements: (1) Standard requisition and release/receipt documents; (2) standard coded data elements; and (3) a uniform issue priority system.

MILSTRIP standard policies, procedures, and instructions will be followed by all military services and the General Services Administration (for stores-stocked items in support of military requirements only) in requisitioning and issue procedures.[2] These replace the variety of in-use systems for requesting and receiving materiel, and reduce to one the number of systems in which a requisitioner must participate. It is a single line item requisitioning system embodying coded elements of requisitioning and shipment data which are susceptible to transmission through modern high speed communication media.

In less technical terms, the use of MILSTRIP means the use of automatic data processing systems. Items which military users wish to buy will not be submitted in lists, but as separate items, one item per

[1] See "Organization and Management of Missile Programs," hearings before a subcommittee of the Committee on Government Operations, House of Representatives, 86th Cong., 2d sess., May 3-6, 1960, pp. 158-159; "Air Force Ballistic Missile Management," H. Rept. No. 324, 87th Cong., 1st sess., May 1, 1961, p. 48.

[2] Specific procedures are contained in the DOD MILSTRIP operating manual, dated Sept. 1, 1961; change 1, dated Feb. 5, 1962; and change 2, dated May 1, 1962.

punched card. EAM cards are used so that the items can be translated into common machine language.[3]

Practically all military facilities have EAM equipment.[4] Once placed on EAM cards, the data can be transferred to magnetic tape for compact storage and quicker access. Decimal numbers used in EAM equipment can be translated to digital binary language and logic, and computations then can be made at very high speeds.

Other information can be coded; that is, turned into numbers or letters which can be represented by spaces on an EAM card which can be punched. Such coded information also can be transferred to magnetic tape. The Federal catalog is contained in this EAM card-electronic tape form.

The MILSTRIP system, then, provides a uniform U.S. military information system for ordering and handling military supplies.

The system provides coded letters and numbers to represent the requisitioner, the supplier, the routing, the Federal catalog stock number of the item, the funding, the use, information on availability of the item, and shipping information. All supply points and commands must have code symbols, as well as military aid program participants worldwide, and all media and locations in the worldwide transportation system. Unless the system is all-inclusive, it cannot be put on machines and will require human assistance, which is not only costly but far too slow to keep up with the rest of the system.

Procedures are included for standard means of reply, followups, receipt, and other necessary functions.

Operationally, the most important part of MILSTRIP is the uniform material issue priority system. This system attempts to define and code the urgency of need for an item, and the mission urgency of the unit requesting the item, combining these two so as to provide for the first time a single, general means of letting the supply system know which orders to fill first from the stocks on hand.

URGENCY-OF-NEED DESIGNATORS

There are four urgency-of-need designators, lettered A, B, C, and D. Top priority is A, and this is to be used only for items which a requisitioner must have to perform his mission. It covers emergency requirements for primary weapons and equipment, or materiel needed to repair such primary weapons or equipment on an emergency basis.

Second priority is B, which is used for items required for immediate use, the lack of which is reducing operational capability, effectiveness, or efficiency. It is also to be used for materiel needed to make emergency replacement or repairs to auxiliary equipment, and for items urgently required in order to prevent serious personnel hazards.

Third priority, C, is used for items needed for the support of assigned missions and tasks on a more-than-routine stock replenishment basis. It would be used for items needed for scheduled redeployment, for scheduled industrial requirements, or for emergency repairs or replacement of administrative support equipment not essential to the operational effectiveness or safety of the activity.

[3] The term "EAM" means electrical accounting machines, which use punched cards as input. "IBM cards" is another term often used with the same meaning because of the 85-percent predominance of IBM equipment in both military and civilian usage. See hearings, p. 48.

[4] Requisitioners who do not have equipment and personnel to punch and transmit EAM cards will mail unpunched cards with handwritten entries to their supply sources for processing.

Finally, D is the designation for routine stock replenishment, routine depot redistribution, and the filling of orders for predetermined initial allowances not supported by the criteria for A, B, and C.

FORCE/ACTIVITY DESIGNATORS

The mission urgency of the requisitioner is defined by force/activity designators, numbered I, II, III, IV, and V. Top priority, I, is for U.S. forces in combat and other forces or activities designated by the Joint Chiefs of Staff. This designation is not to be used in peacetime, except for presidentially approved top priority programs, for JCS-designated units or projects, or unless there is a declared emergency.

A II designation is used for U.S. forces positioned and maintained in a state of readiness for immediate combat, direct combat support units, and forces or activities designated by the JCS, including those supported by military aid programs.

A III designates U.S. forces maintained in a state of readiness for combat, other activities essential to combat forces, and forces designated by the JCS, including those supported by military aid programs.

Designator IV is used for U.S. Active and selected Reserve Forces, and JCS-designated MAP-supported forces, other than those in II and III, which are planned for employment under approved joint war plans, and support forces essential to them.

All other forces and activities are given the designator V.

ISSUE PRIORITY DESIGNATORS

The combination of urgency of need with the force/activity mission urgency results in the following table:

Urgency of need designator	Force/activity designator	Issue priority designator	Urgency of need designator	Force/activity designator	Issue priority designator
A	I	1	C	I	11
A	II	2	C	II	12
A	III	3	C	III	13
B	I	4	C	IV	14
B	II	5	C	V	15
B	III	6	D	I	16
A	IV	7	D	II	17
A	V	8	D	III	18
B	IV	9	D	IV	19
B	V	10	D	V	20

This supply system code will not distinguish between equally urgent needs of equally urgent missions. That is still a commander's decision, if both needs cannot be filled at the same time. But it does make many useful distinctions between urgencies, and makes them in common terminology. No priority system works unless the definitions are followed. But the fact that the information is already on EAM cards will enable the system to be adjusted and more fully defined, if necessary, after some operating experience is acquired.

The fact that much other information is on EAM cards will make possible a great deal of system analysis that has not been possible before. While the requisition form itself is not intended to be a management or reporting document unless so specified, data on demand, costs, projects, routings, workloads, and many other factors

can be derived and analyzed in more detail for the first time. In particular, comparable and uniform data can be developed on a defensewide basis down to the lowest military echelons. Fully used, the system may be a tool in improving the ratio of administrative effort required for the support of combat-ready forces.

PRIORITY DELIVERY DATES

The system also includes maximum standard delivery dates which apply unless a specific date has to be met for other reasons. Supplies bearing issue priority designators 1, 2, and 3 must be received by the requisitioner within 120 hours if he is in the continental United States, or within 168 hours if he is in an oversea area. Issue priority designators 4, 5, 6, 7, and 8 must be delivered in 8 days within the continental United States, or in 15 days to oversea areas. Designators 9, 10, 11, 12, 13, 14, and 15 will be delivered in 20 days (or 40 days for overseas). Designators 16, 17, 18, 19, and 20 must be delivered in 30 days (60 days for overseas).

These time limits govern the promptness with which the supply activity must act, both in actually filling the requisitions and in allowing time for transportation of the supplies.

DSA ROLE IN MILSTRIP

The Defense Supply Agency has been assigned the responsibility for the system maintenance of MILSTRIP. It is required to insure the adoption of and the continuous operation of the procedures in a uniform manner by each of the military departments and by the General Services Administration, and to develop and incorporate needed improvements in the system.

MILSTAMP

Accompanying and supplementing MILSTRIP procedures is the MILSTAMP system, an acronym for military standard transportation and movement procedures, dated June 30, 1962. Like MILSTRIP, MILSTAMP consists of computer-adapted procedures which will be uniform and standard throughout the Department of Defense. It will be placed in effect on July 1, 1963.

The uniform documents provided for MILSTAMP will not simply be EAM cards, but will also include transportation control and movement documents, cargo and shipping manifests, and shipment planning worksheets.

This system includes its own set of priorities, based on MILSTRIP. Transportation priorities are set up on the basis of the combined inventory priority designator as follows:

Transportation priority 1—MILSTRIP issue priority designator 1, 2, 3.

Transportation priority 2—MILSTRIP issue priority designator 4, 5, 6, 7, 8.

Transportation priority 3—MILSTRIP issue priority designator 9, 10, 11, 12, 13, 14, 15.

Transportation priority 4—MILSTRIP issue priority designator 16, 17, 18, 19, 20.

MILSTAMP code symbols are provided for air terminal ports, air cargo dimensions, waterborne commodities, shipments, service assignments, storage locations, ocean areas, etc.

As in the case of MILSTRIP one of the greatest benefits should be the availability of uniform and comparable data on costs, modes, times, and details of transportation systems.

Furthermore, personnel training and experience should become more valuable as such training and experience become more transferable from one part of the system to another.

At the same time, the degree of automation involved will make it possible to keep up with the constant expansions in traffic and demand without excessive expansion of the system.

The development and maintenance of the MILSTAMP systems and procedures has been retained as a function of the Office of the Assistant Secretary of Defense (Installations and Logistics).

IX. RELATIONSHIPS WITH GENERAL SERVICES ADMINISTRATION [1]

The working relationships between the Department of Defense and the General Services Administration have been a source of continuous concern since the establishment of the civilian agency.[2] The GSA has not, until recently, showed signs of becoming the active, aggressive, and truly valuable service agency it was intended to be. It has been slow, bureaucratic, and unresponsive to rapidly changing needs. In the supply field, Defense officials have been loath to entrust important supply support to this civilian agency. GSA in turn has regarded Defense Department units as just another customer group with no particular claims for more rapid and accurate service.

In one respect, the problem of procuring material for the Government, particularly civilian-type common items, is simply defined. Large volume purchases can be made at great savings to the Government when industry can plan for and produce needed items at less production cost per item. With large volume, it makes little difference whether purchases are concentrated in the GSA or in the Defense Department. Savings can be made in either place, almost regardless of the skill and experience of the procuring officials. After that, testing, inspection and quality control became the means of insuring that lower prices in fact insure the same quality of product.

It is equally clear, of course, that the size of the single buy can exceed nominal or working capacity of industry for some items, and overtime and other factors begin to raise the price of additional consolidations of orders. Close attention must be paid by all procurement offices to what is sometimes called the economic order quantity.

The General Services Administration was intended to be, among other things, a central purchasing and management agent for the Government. All departments and agencies can and should draw on its services, and it should provide prompt, detailed, and economical response to the needs of the agencies. The use of GSA services should permit and require the pruning and reduction of individual agency purchasing offices. These kinds of objectives never really have been reached.

Recent developments have been in another direction. The GSA, at least as far as its Federal Supply Service is concerned, is becoming a fief of the Defense domain. In fiscal year 1961, GSA procurement reached the billion-dollar level for the first time.[3] But in that year, 72 percent of GSA procurement has been performed on behalf of the Department of Defense, even though this represents only 3 percent of total Defense procurement. The other 28 percent of GSA procurement represents only 12 percent of the procurement dollars of the civilian departments and agencies.[4]

[1] See the GSA response to subcommittee questions, hearings, pp. 464–472.
[2] The GSA was established by the Federal Property and Administrative Services Act of 1949, Public Law 81–152, 63 Stat. 377.
[3] Annual report of the Administrator of General Services, 1961, p. 2.
[4] Hearings, p. 45.

Among the military departments, the Air Force is the predominant user of GSA. This reliance is the result of limitations on Air Force supply functions at the time the Air Force was established as a separate department. It was not intended that the Air Force should duplicate the common supplies systems of the Army and Navy. In recent years, the Air Force has turned to the GSA for some common supply categories, such as hand tools and household furniture for Government quarters, rather than using the Army or Navy under single department procurement assignments.

With regard to civilian agency use of GSA, there are some apparent problems. Mr. Boutin, the Administrator of General Services, pointed out that some agencies, such as the National Aeronautics and Space Administration, may have as complex and technical procurement requirements as the Defense Department,[5] and there may be good reason for such agencies not to channel a larger proportion of dollars through the GSA. Such procurement is for research and development, not for standard industry products.

But part of the reason for the limited dependence on GSA is from the failure, over the past 10 years, of the GSA and the civilian agencies to complete the Federal catalog program on a Government-wide basis. Until this is done, the failures of interagency coordination, and the possible excesses in prices paid for the same items by different agencies, cannot be determined without clerical efforts that are wasteful in themselves.

General McNamara testified, for instance, that catalog work performed by what is now the DSA's Defense Logistics Services Center for the Federal Aviation Agency showed that 80 percent of the uncataloged FAA supply system items were already cataloged by the Department of Defense, and had Federal stock numbers. Many of these items may be outside the common supply areas handled by the GSA, but there is a new possibility that FAA can improve its procurement coordination both with the GSA and the Department of Defense. There may be opportunities to consolidate procurement, or simply for FAA to request and use Defense items in long supply.

The committee discussed the questions raised by the transfer of the Defense catalog operations to Battle Creek in connection with the Defense Logistics Services Center. It is appropriate to state here, however, that it remains the job of the GSA to see to the completion and use of the Federal catalog in the civilian agencies. This work has lagged too long. It is the duty of the GSA to get it done as best it can, and to urge the use of excess Defense inventories throughout the Government, as well as to encourage interagency cooperation on procurement and use of long supplies. If it needs to bolster the work of the Federal catalog, it should work cooperatively with Defense to make sure that current catalog data are continuously available to the other Government agencies.

The other side of the GSA relationship to the DSA and its Logistics Services Center involves excess screening and surplus disposal. The committee places the same emphasis on the GSA part in disposal operations that it does on the DSA side. There must be better assurance that excess property is thoroughly screened and used imagitively in Federal programs. The first priority is to meet the needs of the military departments at all levels; this responsibility must stay with the DOD as regards obtaining knowledge of all requirement

[5] Hearings, p. 45.

and procurement needs and passing upon their validity. GSA must assure that all civilian agency needs that can be satisfied by excess and surplus are met.

GSA could, perhaps, be completing the Federal catalog and coordinating the use of standard requisition and issue procedures for the civilian agencies to match the military MILSTRIP. It could gather more demand and usage information from the agencies, and attempt to achieve higher levels of utilization of excess through computer operations. But however accomplished, excess, foreign excess, and surplus must be managed for the optimum benefit to the Government. There should continue to be close coordination between the GSA and the DSA in the establishment of Federal policy to assure the achievement of this objective. These policies must recognize that the needs of the Government must be achieved to the maximum extent through the utilization of excess and surplus, using procedures like those of the Defense Logistics Services Center, up to the time of the sale of surplus.

MILSTRIP and Automation

The fact that GSA's procurement function is largely exercised on behalf of the Defense Department is not in itself undesirable or unfortunate. The volume procurement emanating from the Defense Department can significantly reduce the prices paid for the same items by the smaller Government agencies. Moreover, the impact of Defense procurement is now resulting in an expediting and improvement of GSA methods, largely in the GSA depot operations, which should be of benefit to other GSA customers as well as Defense.

One development that affects GSA is the necessity to adhere to the military standard requisitioning and issue procedures (MILSTRIP), already described in this report. This requires more automatic data processing equipment, more machine techniques, and more vigilance to prevent machine errors. GSA has set up round-the-clock depot operations to fill priority needs for military customers. Administrator Boutin emphasized that these operations need not produce any waste, since the personnel employed in extra-shift operations can do regular work if there are no priority orders to fill.

What this development should mean to the rest of the civilian agencies of Government is that there are round-the-clock supply operations available that were not available before. GSA and the civilian agencies should reexamine all Government supply systems to determine where better use can be made of the GSA in conjunction with the increased measures being taken to insure that military orders are filled.

Some agency needs also may be amenable to certain kinds of priority breakdowns, which could be made comparable and compatible with milstrip and fit into GSA's new procedures and workloads. GSA takes the position that the Department of Defense simply is one of its customers, and all agencies get equally good service. If so, the opportunity exists for all the Federal agencies further to test out the GSA system and make more use of it.

The civilian agencies must also take steps to use the increased supply support provided by GSA resulting from the added thousands of new Defense Department items which are entering GSA stocks and cognizance. A more complete line item support is thereby made available for them. The agencies should be directed by the President

to examine this increased support and use it to effect economies in supply management and stocking wherever possible.

Transportation, Telecommunications, and Utility Services

It was noted in the testimony that the Department of Defense had exempted itself in 1954 from the provisions of the Federal Property and Administrative Services Act with respect to traffic management.[6] There is no agreement or area of understanding in this field. The Defense Traffic Management Service of the DSA provides such traffic management services for the Department of Defense.[7] On a project basis, however, GSA and DTMS act in cooperation. An example of such cooperative action was in the development of a uniform procedure for section 22 [8] quotations. And at the time of the hearings, consideration was being given to DOD operating under the GSA average demurrage agreement with the railroads.

The area of understanding for communications and public utilities, agreed to in 1950, and amended in 1957, is still in effect. The GSA retains the general function of representing the Government's interest in communications and utility rate cases before Federal and State regulatory bodies. In specific cases, however, it delegates this function to the Department of Defense when it is the predominant or sole user of the communication or utility service involved. The GSA presented the following summary of savings it estimated had been accomplished by these activities: [9]

A. SPECIFIC REDUCTIONS

	Annual	10 year
1. Fly Ash (1954)	$500,000	$5,000,000
2. Private line telephone (1958) SAGE	10,000,000	100,000,000
Other government	4,500,000	45,000,000
3. Western Union plan 55 (1958)	783,332	7,833,320
4. Electric rates, Vepco (1960)	160,000	1,600,000
5. A.T. & T. (Lincoln Tillamook)	36,372	363,720
6. General Telephone Co. of Northwest	2,280	22,800
7. West Coast Telephone Co	5,400	54,000
8. A.T. & T. (California Water & Telephone Co.)	18,522	185,220
9. A.T. & T. (General Telephone Co. of Iowa)	756	7,560
Total	16,006,662	160,066,620

B. AVOIDANCE OF INCREASE

Docket No.	Case	Amount
ICC 32290	Less-than-carload rates	$63,000
ICC 23944	Increased freight rates, District of Columbia metropolitan area	68,800
NJ 10049	New Jersey Bell Telephone Co	33,860
Md. 5625	Chesapeake & Potomac of Maryland (telephone)	456,000
NJ 10646	Public Service Electric & Gas Co	171,500
Cal. 39309	Pacific Telephone & Telegraph Co	141,936
Md. 5554	Baltimore Gas & Electric Co	5,900
DC 3594, Case 456	Washington Gas Light Co	30,000
NY 16548	New York Telephone Co	280,000
FCC (to be assigned)	Western Union Co	62,500
NY 18011 and 18013	Consolidated Edison Co. of New York	82,700
FCC 11645	American Telephone & Telegraph Co	1,900,000
FCC 11646	Western Union Co	2,000,000
Colo. 17406	Public Service Co. of Colorado	118,905
Texas 10356-T	Increased rates and charges	4,285
Total		5,419,386

[6] Hearings, p. 46.
[7] See sec. VI of this report.
[8] Sec. 22 of the Interstate Commerce Act permits carriers to transport Government traffic at special rates.
[9] Hearings, p. 51.

In summary, the GSA role as this committee sees it, has become twofold. It must try to obtain a high degree of efficiency and coordinated support for the military, in the limited number of military user items which it is taking into its depot system operations. This is an increasingly important role, and it must not fail in its service to the Department of Defense. It is assuming supply support and management for the benefit of the Department of Defense, and in this capacity it must make Defense-type decisions. It is largely confined, however, to commercial-type items. It is not engaged in research or development of new or revised items.

The second part of its role is to increase, for the benefit of all departments and agencies, the economics which can be achieved by the use of the increased facilities and service capabilities that are being brought into being initially for the benefit of the Defense Department. The range of items being handled in the depot system is being doubled, and the usefulness of the depot system to all the other departments and agencies should be multiplied. There should be greater volume purchases and lower proportionate distribution costs. If these advantages are not pursued aggressively, the opportunity for economies will be lost.

At the same time, GSA must increase its surveillance of the prices maintained in the Federal supply schedules. It must have a reporting system which reveals purchase and market conditions on a more current basis. The supply schedules must not be allowed to be a vehicle for maintaining prices much higher than can be obtained by each agency's separate negotiation or advertising procedures that the agencies will not use GSA services.

It is understood that the prices set in the schedules are often for small quantities. But GSA must maintain enough information to find out if the assignment of items to the schedules at such prices is based on the facts of actual orders and usage.

The committee emphasizes the need for aggressive action by the General Services Agency, on a Government-wide basis, to make known and relate its expanding capability to the civilian agencies, and to their procurement and supply organizations.

This formulation should also guide the Department of Defense, including the military services and the Defense Supply Agency, in delegating duties to the GSA which can be of benefit to the Government as a whole, when the activities of other Departments and agencies are considered.

X. OUTLOOK AND OBSERVATIONS

What is the future of this new Defense Supply Agency? Its genesis can be traced plainly through prior concepts, organizations and studies, but its status in the Military Establishment is unique and too new to fully assess.

The Defense Supply Agency was established at the apex of a group of single manager agencies. In a sense it is a "single manager for single managers," which this committee suggested would be necessary at some point in the growing accumulation of consolidated commodity management operations. However, as the Department has strongly urged, this characterization is incomplete in many respects.

A single manager was a secretary of a military department, while the Director of the Defense Supply Agency is a military commander of a Defense agency which has been made organizationally autonomous.

The single manager operating agencies were "integrated" in the military departments, while the Defense Supply Agency is self-contained and self-supporting in an administrative sense. Its Director is answerable to the Secretary of Defense.

The single manager operating agencies had to compete for operating funds within the military departmental budgets; the Defense Supply Agency is to be financed at the DOD level.

Single Chain of Command

The Deputy Secretary of Defense and the Director of the DSA cited the advantage of the shortened chain of command between the supply centers and top level authority. This is certainly an advantage for operational commanders. Each of the DSA supply centers and the Traffic Management Service reports directly to the DSA Director and he in turn reports directly to the Secretary of Defense. Under the single manager system, at least two and often three or four echelons were interposed between the commodity managers and the Secretary of Defense level. Each of the supply center managers has told the committee that the elimination of these echelons is a benefit to their operations.

The establishment of the DSA, however, has not by any means eliminated the complicated array of internal relationships within the Department of Defense. Although the DSA has a policy role, it must look to the Office of the Assistant Secretary of Defense (Installations and Logistics) for policy guidance on questions which extend into areas other than the common supply and service areas assigned to DSA. DSA must work closely at all levels with the military departments in order to avoid unilateral or arbitrary action which could interrupt the effective supply support of a military departmental activity.

Moreover, the Defense Supply Agency must work closely with the joint staff of the Joint Chiefs of Staff, and vice versa, in order to insure that supply support in the assigned areas will accord with military planning.

There is no magic formula or organizational scheme which can avoid the necessity for continuous and detailed communication among the hundreds of military offices and agencies which are affected by important decisions on basic commodities needed for military operations.

Nor is there any use in pretending that a shortening in the chain of command by itself produces vastly different or significant results from what might otherwise be accomplished under different organizational concepts. What is important here is that a large number of significant decisions must be brought to the attention of the highest level of the Defense Department and decided on a uniform, rational, and coherent basis. In military supply, decisions cannot ignore either the economy and effectiveness which can be achieved through commodity management, or the combat and technical readiness which cuts across all commodities and services.

The shortened chain of command and the centralized direction provided by the DSA organization should enhance the possibilities of achieving greater economies in supply management. This will only be the case, however, if the military departments realize the opportunity for and cooperate to the greatest degree possible in the effective use of DSA. Mistakes and major miscalculations in this single agency could have potentially great importance in their impact on the success of military plans and in the potential loss or waste of Government assets. DSA and the military departments must work together to insure that such miscalculations do not occur.

The future of DSA is tied to the evolution of the Defense Establishment as a whole in adjusting to new and ever-changing weapon technologies. For the foreseeable future, its status and role are as certain as those of the military departments, and its particular interest and concern are to manage well those supply and service functions which lend themselves to central management.

So long as the three-department, four-service division of the Defense Establishment obtains—and it will do so for a long time—there will be a problem of central versus separate department management of supplies and services. Indeed, the development of complex, new and costly weapon systems make such large demands on funds and resources that there is an ever more compelling obligation to manage well and economically the common and particularly the civilian-type supplies.

All of the military services have been undergoing rapid change in the last decade, but old problems persist. For instance, the Navy has always had the problem of providing supplies for independently operating ships which can be variously disposed, detached, or grouped in many types of operating formations. Likewise, the Army has and will continue to have the problems of providing supply for its divisions, whatever the internal organization of the division, and whatever the larger element to which it is assigned.

Of course, some missions and organizations simply drop out of the picture, and the supply problems fall out with them. But the newer

technologies and weapons usually seem to require special tailormade supply support.

The Department of Defense, in its incredibly complex and varied missions, organizations, and activities, contains the military strength of the United States. All the interdependent parts of the Department have the common problem of the defense of the United States.

In seeking economical and efficient supply operations, one must take care that historic roles, skills, and specialties of the military departments and services as we know them should not be casually reshuffled, upset, or reshaped without the most serious consideration and study. But all of the present capabilities have to be shaped toward possible future needs.

The organization and management of supply must follow the formulations of military command, strategy, and tactics. The National Security Act provides for unified commands in the field. The unified commands report through the Joint Chiefs of Staff to the Secretary of Defense.

The Defense Supply Agency should provide a single common supply base for unified war that would have to be fought if it becomes necessary. In a real sense this agency should free the military departments from common supply roles and let them attend to their specialties. However, in so doing it is extremely important that the DSA be diligent to assure that the common combat supply items of the military departments will be fully available to the departments at all times. Logistical control must never be separated from the responsibility of the combat commander.

Possible DSA Commodity Areas

It has been suggested in several public statements that the Defense Supply Agency has a large potential capacity for growth and development beyond the specific assignments which have been initially made to it. Secretary McNamara himself indicated this at his August 31, 1961 press conference; and Deputy Secretary Gilpatric referred in a later speech to the possible assignment of an inventory responsibility for $20 billion in stocks, as compared to the $3 billion or so which is now the responsibility of the Defense Supply Agency.

Such expansion can come only from the assignment of large new commodity areas to the Defense Supply Agency. It was announced last year that studies would be pushed in three particular areas, at least, to determine their suitability for central management. These areas are: (1) industrial production equipment, (2) chemical supplies, and (3) aeronautical spare parts.

INDUSTRIAL PRODUCTION EQUIPMENT

General McNamara testified that a DSA study team had completed its analysis of industrial production equipment.[1] In House Report No. 1214 we observed that this commodity category included equipment with an acquisition value of more than $4 billion as of June 30, 1961. Of this $4 billion, $2.85 billion or more was in use, principally in contractor-operated plants, while about $780 million worth is stored in idle packaged plants and standby production lines. Only $389 million worth was considered "inventory" readily available for distribution. That fraction was composed of inactive equipment stored

[1] Hearings, p. 93.

in departmental industrial equipment reserves. The Defense Supply Agency recommendations in this area were submitted to the Secretary of Defense at the end of May 1962; the Secretary's decision is due this month.

CHEMICAL SUPPLIES

With respect to chemical supplies, the Defense Supply Agency began a study of this commodity area in March 1962. The study was to cover 11,000 line items on existing inventory stocks valued at about $50 million. General McNamara told the subcommittee that the initial findings indicated a high degree of item commonality. The study is scheduled to be completed by the end of September, when the recommendations will be submitted to the Secretary of Defense.

AERONAUTICAL PARTS

The aeronautical supplies and repair parts commodity group is probably the key issue which must be decided in order to define the future size, scope, and utility of the Defense Supply Agency. That part of the aeronautical supplies area which apparently will be studied will include over 500,000 items and involve several billion dollars' worth of inventory. GAO reports have indicated that very large dollar savings can be expected from integrated management in this area.

The study is being approached gingerly by the Agency, due perhaps to reactions and apprehensions already expressed by the military services about the expanding mission of the Defense Supply Agency. Inclusion of aviation spare parts in DSA comes closer to the supply support of Naval aviation, Marine Corps aviation, the more conventional Air Force activities, and the expanding Army aviation component. A single agency which has to stand next to the conflicting and swirling currents of these longstanding and controversial issues will need to proceed carefully. In order to take on the aviation parts supply role, DSA must be highly competent, technically exacting, and ready for sustained efficient operations.

The potential DSA role could provide great savings, but also very dangerous margins for error. It is perhaps well that DSA take time for setting its house in order, and assimilating and improving all of its current operations. When DSA has established its depot system, communications, and machine data techniques, it will be better ready to handle more tasks, and indeed, that is the course DSA is taking. The testimony showed that one study was being done for the Director just to list and determine the priority of the tasks to be done, the commitments made, the internal and external things left to be done to bring the Agency into full development.[2] And another task was to plan for compatible automatic data processing systems throughout DSA. The testimony indicated that DSA is not rushing out to build new empires; it is trying to consolidate. It will undertake, however, any studies of new areas as assigned by the Secretary.[3]

In pursuing studies, DSA has more of an objectivity problem than, say, the former Armed Forces Supply Support Center. That Center could study areas for single manager suitability and possible assignment to a military department. Now, General McNamara must

[2] Hearings, p. 178.
[3] Hearings, p. 176.

make studies to decide whether he takes over a commodity from the military departments. Admiral Lyle pointed out, however, that the departments not only participate in the studies, but review and comment on them afterward.[4]

The committee supports a sustained aggressive effort of the Defense Supply Agency to acquire new responsibilities and to develop improved management methods for common supplies and services. In taking this position, the committee is mindful of the limitations that necessarily must adhere to an agency that supports rather than directs the Armed Forces. The business side of supply and servicing, however important to economy and efficiency, can never be allowed to dominate the command decisions vital to armed strengths. We deem it neither wise nor expedient for the supply tail to wag the defense dog.

The Defense Supply Agency will not make basic defense decisions. It is an agency providing a logistic support service. But it can become the first agency able to provide reasonably accurate data for optimum allocation of the common supply and service resources upon which all military components will levy competing requirements. If in this process, it can also manage and execute such common activities in a more efficient and economical way than they have been managed before, this is so much bonus value for the Nation and for the taxpayer.

The committee observes that there has never been any dispute that centralized procurement of particular items and commodities has brought considerable savings and better planning for both the military and the civilian industrial suppliers. Even if the procurement agencies alone had been gathered into one autonomous unit for common supplies, the DSA could be said to represent a consolidation in improvement. But a wider range of activities and services, involving a substantial portion of total logistics, are or can be brought together in the agency in an attempt to reduce the costs even further.

In view of these considerations, the committee takes the view that the establishment of the DSA within the DOD should not be viewed with alarm, in terms of the controversies of the past, as a fourth service of supply. In the DSA, military officers are given assignments to perform for the benefit of all four military services. If the Agency is largely civilian manned, it is simply because the functions which have been brought together within the Agency were also largely civilian manned as performed within the military departments.

Recommendations

In view of the considerations raised in this report, the committee makes the following recommendations:

1. The Congress should be informed of Department of Defense reorganizations on a current basis. In this connection, the appropriate committees of Congress should reexamine the legislative procedures for Defense reorganization to be sure that they provide sufficient notice and legally effective documentation, so that the authority and organizational status of officials and agencies can be precisely traced and determined.

[4] Hearings, p. 175.

2. The Secretary of Defense should take steps to assure, in the joint military staffing concept of the Defense Supply Agency, that the assignment, experience, and duty of military officers in the DSA are given emphasis, support, and guidance, and that the gain in experience is utilized in further assignments in the most effective way.

3. The Secretary of Defense should insure that savings are achieved in the operations and future growth of the Defense Supply Agency, on the basis of the best statistical and operational yardsticks that are available. At the same time, he should insure by his orders that adequate safety margins are allowed for personnel, stocks, and time in all supply studies and planning related to the Agency.

4. Subsequent to the establishment of the Defense Supply Agency distribution system, the actual degree of consolidation achieved both in the military departments and the Defense Supply Agency in terms of locations, storage area, personnel, and transportation routings should be evaluated. The Secretary should require such a study, and this committee requests a report on the results obtained.

5. The growth of data processing facilities in the military supply systems should be accompanied by detailed studies of the objectives of the data systems, the progress being made, and the cost effectiveness of the facilities and systems used. The Secretary of Defense should require the appropriate Department of Defense offices to produce such a study.

6. With regard to the supply of "end items" of military equipment, the committee believes that the Department of Defense is wise in proceeding cautiously on this problem. It is probable that some so-called end items are neither critical nor even necessary for the services to manage, and that the Defense Supply Agency could provide single procurement and even management services for such items. Other so-called end items must be managed along with larger systems not only for efficiency but for economy in final installation.

The committee recommends, however, that DSA establish and maintain central inventory data on end items used by two or more services wherever the actual status of such inventories becomes essential to intelligent decisions on supply of spare parts and replenishment.

7. While the committee does not believe that the complete control of the entry of new items into the military supply inventory or the complete determination of military requirements are appropriate functions for the Defense Supply Agency, much can be done to make full use of its developing experience and resources. Within its assigned commodity areas, DSA should have the greatest possible information and coordinating role.

8. With regard to the standardization program managed by the Defense Supply Agency, the committee recommends that a study be made of the value, effectiveness, and progress of the program, at an early date, with a view to its reorientation and emphasis. The committee suggests that a better state of military readiness and supply effectiveness might be achieved through adherence to a more rigorous goal of item reduction.

9. The committee recommends careful consideration of the communication and information needs of the Defense Supply Agency and its components, in view of their involvement not only in repetitive but in emergency military and disaster requirements. The closest coordi-

nation is necessary both to prevent waste and excessive procurement and to insure responsive support.

10. The committee recommends that the Defense Logistics Services Center be given sufficient authority, support, and resources to permit it to maintain and increase the use made of long supply, excess and surplus property by all units of the Defense Department, and to increase its service to other Federal agencies so as to increase the interdepartmental exchange of such assets.

11. The committee recommends that detailed attention be given to the role of the Defense Subsistence Supply Center in the research and development of food items which have a longer shelf life.

12. The committee recommends that close and continuing attention be given to the supply effectiveness of the Defense Supply Agency centers, and particularly to the clothing and general supply centers.

13. The committee recommends that full use be made of data which can be derived from the new standard requisitioning and issue procedures and data systems to analyze requirements, usage, and distribution patterns, and to suggest further areas of improvement in military supply systems.

14. The committee recommends that the President direct the civilian agencies to make optimum utilization of the increased capability of the General Services Administration which has been provided for the increased supply support of commercial-type items needed by military customers.

15. The committee recommends that the Department of Defense continue to rely on the General Services Administration for items which do not require military management in accordance with criteria approved by the Secretary of Defense.

The committee makes no recommendation on the Defense Medical Supply Center or the Defense Petroleum Supply Center, since certain aspects of medical supply operations are already under further review, and the Secretary of Defense has already indicated his intention to study petroleum supply matters.

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